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BUILDING ON INNOVATION

CANADA MORTGAGE AND HOUSING CORPORATION

ANNUAL REPORT 2007

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Forward-Looking Statements

CMHC's Annual Report contains forward-looking statements regarding objectives, strategies and expected financial results. There are risks and uncertainties beyond the control of CMHC that include, but are not limited to, economic, financial and regulatory conditions nationally and internationally. These factors, among others, may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

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Ce rapport est aussi disponible en français.

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CMHC SCHL

HOME TO CANADIANS

OUR TOOLS

WE WERE ENGAGED IN A WIDE VARIETY OF ACTIVITIES IN 2007 AIMED AT HELPING CANADIANS ACCESS SOUND AND AFFORDABLE HOUSING.

CMHC's programs, products and services help Canadians whether they are in need of assistance or whether they are seeking to meet their own housing needs in the marketplace. Many of our activities support the well-being of the housing sector in order to improve the availability and choice of housing for Canadians while safeguarding the environment.

- Subsidies for low-income housing under long-term commitments
- Non-profit housing and market-based housing finance solutions for on-reserve Aboriginal Canadians
- Renovation programs, most of which are available on and off reserve – the Residential Rehabilitation Assistance Program (RRAP), the Emergency Repair Program (ERP), Home Adaptations for Seniors' Independence (HASI), and the Shelter Enhancement Program (SEP)
- Financial assistance through the Affordable Housing Initiative (AHI) to support housing programs designed and delivered by provinces and territories
- The CMHC Affordable Housing Centre provides advice and expertise as well as Seed Funding and Proposal Development Funding that help in the early stages of developing an affordable housing project
- Direct Lending to non-profit housing groups at the best possible interest rates in order to decrease the cost of public subsidies
- A range of mortgage loan insurance (MLI) products for both homeownership and rental loans
- The *National Housing Act* Mortgage-Backed Securities (NHA MBS) program and Canada Mortgage Bonds (CMBs) to enhance the supply of low-cost funds for mortgage lending
- Wide-ranging research and information transfer on housing quality and needs, including the promotion of sustainable housing technologies
- Market analysis
- Export promotion and international consulting services

Also see Glossary for additional details on CMHC's programs, products and services, or consult our Web site at www.cmhc.ca

OUR KEY ACCOMPLISHMENTS IN 2007

IN ADDITION TO OUR FINANCIAL RESULTS, WE ARE PROUD OF OUR MANY OTHER SUCCESSES THIS YEAR.

Objective 1: Help Canadians in Need

We help Canadians in need to access affordable, sound and suitable housing.

- Provided $1.7 billion in funding to assist some 626,000 lower-income households access affordable and suitable housing.
- Announced a $300-million First Nations Market Housing Fund that will provide access to financing on-reserve for home purchase or renovations.
- Over 19,000 homes, rental units and temporary shelters for victims of family violence benefited from CMHC funding towards repairs or alterations.
- Over 5,000 units developed under the federal $1-billion Affordable Housing Initiative (AHI) in 2007. The AHI will result in the creation of some 44,000 units over its duration. Another 3,154 affordable housing units facilitated largely without federal subsidy assistance, through the provision of information and advice by CMHC's Affordable Housing Centre.

Objective 2: Facilitate Access to More Affordable, Better Quality Housing for All Canadians

Our commercial mortgage loan insurance and securitization products help Canadians throughout the country to access low-cost financing. We are also a major source of housing market information and research, which contributes to informed decision-making and improvements in housing quality.

- Helped Canadians access home financing. Over 800,000 mortgage loan insurance approvals. 37% of approvals were for loans which are underserved or not served by private mortgage loan insurers.
- Launched enhanced mortgage loan insurance products that facilitate access to insured financing for self-employed borrowers and for small rental property owners.
- Helped ensure the supply of low-cost funds for mortgage lending. Enabled multi-family property loans to be securitized through the Canada Mortgage Bond (CMB) program creating access to lower-cost financing for rental accommodation.

Objective 3: Ensure the Canadian Housing Finance System Remains One of the Best in the World

We promote sustainable housing practices and support the continued evolution of Canada's housing system. We assist the Canadian housing industry export its products and services.

- Initiated the construction of seven EQuilibrium Healthy Housing Initiative demonstration homes featuring new approaches to sustainable housing in Canada. Promoted sustainable community development practices and other environmentally-friendly housing solutions.
- Promoted Canada's world-class housing products, services and systems internationally, facilitating export sales of over $105 million. Provided CMHC expertise in housing finance leading to the launch of a mortgage loan insurance company in Jordan which will facilitate housing finance in that country.

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OUR MANDATE

The promotion of:

- housing affordability and choice;
- the availability of low-cost financing; and
- the well-being of the housing sector.

OUR PUBLIC POLICY OBJECTIVES

1. Help Canadians in Need
2. Facilitate Access to More Affordable, Better Quality Housing for All Canadians
3. Ensure the Canadian Housing System Remains One of the Best in the World

OUR VALUES

We lead by example, we honour our obligations, and are committed to:

Serving the Public Interest

As stewards of the public trust we serve with fairness, impartiality and objectivity. All of our activities, including those that are commercial in nature, are carried out in support of our public policy objectives. Our actions are inspired by a respect for human dignity and the value of every person.

Achieving Business Excellence

We exercise the highest standards of competence, trustworthiness and prudence in conducting our business relationships and in managing the financial, physical, and human resources entrusted to our care. We encourage learning, innovation and personal initiative to continuously improve the way we do business and achieve the best possible results for the Canadian public.

Building a Workplace Community

We practice mutual respect and honesty in our working relationships. We help each other to achieve the goals of the team and the organization, and to maintain a healthy balance between our CMHC work and the other parts of our lives.

We willingly explain our actions so that we may hold ourselves, and each other, accountable for living these values in the workplace.

BUSINESS HIGHLIGHTS AND OUTLOOK

These tables summarize results and projections for key business areas over the planning period.

Business Highlights...

Corporate Results	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Plan
Total Assets ($M)[1]	59,925	81,008	101,093	124,218	**148,168**	127,548
Total Liabilities ($M)[1]	57,449	77,582	96,665	118,764	**141,174**	120,751
Total Equity ($M)	2,476	3,426	4,428	5,454	**6,994**	6,797
Total Revenue ($M)[1]	5,639	6,618	7,409	8,378	**9,746**	8,137
Total Expenses ($M)[1]	4,632	5,219	5,945	6,896	**8,172**	6,606
Total Operating Expenses ($M)[1]	294	305	303	298	**347**	362
Net Income ($M)	667	950	1,002	1,026	**1,070**	1,033
Other Comprehensive Income ($M)[2]	n/a	n/a	n/a	n/a	**(200)**	65
Comprehensive Income ($M)[2]	n/a	n/a	n/a	n/a	**870**	1,098
Reserve Fund ($M)	91	134	143	143	**121**	151
Staff Years	1,799	1,814	1,804	1,877	**1,888**	1,897
Insurance						
Mortgage Loan Insurance Units Approved	517,795	652,573	746,157	631,191	**803,151**	603,061
Insurance in Force ($M)	230,000	243,800	273,700	291,400	**333,775**	308,800
Net Insurance Claims Expense ($M)	188	51	119	209	**315**	181
Premiums and Fees Received ($M)	1,203	1,446	1,492	1,383	**1,740**	1,529
Investments (including cash) ($M)[3]	6,710	7,831	9,053	9,974	**12,026**	11,760
Net Income ($M)	602	875	951	981	**1,022**	991
Other Comprehensive Income ($M)[2]	n/a	n/a	n/a	n/a	**(187)**	61
Comprehensive Income ($M)[2]	n/a	n/a	n/a	n/a	**835**	1,052
Unappropriated Retained Earnings ($M)	0	0	657	1,313	**1,942**	1,608
Retained Earnings Set Aside for Capitalization ($M)	2,237	3,112	3,406	3,731	**4,258**	4,433
Securitization						
Annual Securities Guaranteed ($M)	27,017	29,592	30,374	36,071	**57,981**	30,500
Securitization Guarantees in Force ($M)	59,994	80,800	103,709	129,500	**165,332**	136,900
Fees Received ($M)	60	66	68	85	**131**	69
Investments (including cash) ($M)[3]	200	266	327	396	**533**	460
Net Income ($M)	30	32	42	45	**58**	46
Other Comprehensive Income ($M)[2]	n/a	n/a	n/a	n/a	**(7)**	4
Comprehensive Income ($M)[2]	n/a	n/a	n/a	n/a	**51**	50
Unappropriated Retained Earnings ($M)	123	155	197	242	**305**	288
Housing Programs						
Housing Program Expenses ($M) (excluding operating expenses)	1,972	2,006	1,973	2,049	**1,912**	1,930
Affordable Housing Initiative Expenditures ($M)	166	173	175	167	**95**	82
Estimated Households Assisted Through Long-Term Commitments	635,900	632,650	633,000	630,000	**626,300**	630,400
Annual New Commitments (units) Under Renovation Programs	18,467	25,539	21,990	20,535	**19,049**	3,694
Annual New Commitments (units) Under Renovation Programs – On-reserve	1,183	1,484	1,508	2,421	**1,171**	609
Annual New Commitments (units) Under Renovation Programs – Off-reserve	17,284	24,055	20,482	18,114	**17,878**	3,085
New Commitments On-Reserve Non-Profit (units)	968	978	1,045	4,393	**1,442**	1,122
Lending						
Loans and Investments in Housing Programs ($M)	14,075	13,669	13,170	12,706	**12,341**	12,643
Borrowings from Capital Markets ($M)	10,244	9,212	9,467	8,625	**8,295**	8,694
Borrowings from the Government of Canada ($M)	5,232	5,045	4,899	4,701	**4,446**	4,446
Net Income ($M)	35	43	9	0	**(19)**	(4)
Canada Housing Trust						
Canada Housing Trust Assets ($M)	35,422	54,975	73,208	96,445	**120,122**	99,866
Canada Housing Trust Liabilities ($M)	35,422	54,975	73,208	96,445	**120,122**	99,866

1 Historical results have been restated to reflect the consolidation of Canada Housing Trust.

2 New components of the financial statements as required by the implementation of the financial instruments guideline in 2007.

3 Excludes investments related to repurchase activities and accrued interest receivable.

...and Outlook

Corporate Results	2008 Plan	2009 Plan	2010 Plan	2011 Plan	2012 Plan
Total Assets ($M)[1]	156,165	175,579	189,625	192,596	192,629
Total Liabilities ($M)[1]	147,813	165,979	178,671	180,210	178,707
Total Equity ($M)	8,352	9,600	10,954	12,386	13,922
Total Revenue ($M)[1]	9,482	9,886	10,665	11,493	11,532
Total Expenses ($M)[1]	7,905	8,230	8,898	9,630	9,550
Total Operating Expenses ($M)[1]	355	365	377	414	415
Net Income ($M)	1,095	1,159	1,254	1,331	1,417
Other Comprehensive Income ($M)[2]	90	89	100	101	119
Comprehensive Income ($M)[2]	1,185	1,248	1,354	1,432	1,536
Reserve Fund ($M)	133	126	119	108	105
Staff Years	1,928	1,900	1,881	1,873	1,864
Insurance					
Mortgage Loan Insurance Units Approved	578,539	573,920	572,783	571,996	573,460
Insurance in Force ($M)	315,700	325,600	334,500	342,100	348,500
Net Insurance Claims Expense ($M)	231	259	272	285	314
Premiums and Fees Received ($M)	1,585	1,605	1,636	1,665	1,692
Investments (including cash) ($M)[3]	13,445	14,843	16,419	18,002	19,681
Net Income ($M)	1,042	1,099	1,186	1,264	1,338
Other Comprehensive Income ($M)[2]	69	66	77	75	85
Comprehensive Income ($M)[2]	1,111	1,165	1,263	1,339	1,423
Unappropriated Retained Earnings ($M)	2,800	3,675	4,704	5,841	7,065
Retained Earnings Set Aside for Capitalization ($M)	4,376	4,600	4,757	4,884	4,998
Securitization					
Annual Securities Guaranteed ($M)	40,000	40,000	40,000	40,500	40,500
Securitization Guarantees in Force ($M)	153,100	171,400	181,000	181,600	196,600
Fees Received ($M)	91	91	91	92	92
Investments (including cash) ($M)[3]	630	734	839	947	1,071
Net Income ($M)	61	67	75	78	82
Other Comprehensive Income ($M)[2]	21	23	23	26	34
Comprehensive Income ($M)[2]	82	90	98	104	116
Unappropriated Retained Earnings ($M)	359	426	501	579	661
Housing Programs					
Housing Program Expenses ($M) (excluding operating expenses)	2,333	1,985	1,862	1,836	1,835
Affordable Housing Initiative Expenditures ($M)	73	39	15	8	8
Estimated Households Assisted Through Long-Term Commitments	628,300	625,800	614,700	604,900	594,800
Annual New Commitments (units) Under Renovation Programs[4]	19,916	4,707	813	813	813
Annual New Commitments (units) Under Renovation Programs – On-reserve	982	782	601	601	601
Annual New Commitments (units) Under Renovation Programs – Off-reserve	18,934	3,925	212	212	212
New Commitments On-Reserve Non-Profit (units)	858	858	858	858	858
Lending					
Loans and Investments in Housing Programs ($M)	11,839	11,259	10,742	10,225	9,640
Borrowings from Capital Markets ($M)	6,718	5,671	4,285	3,349	2,070
Borrowings from the Government of Canada ($M)	5,881	6,326	7,312	7,724	8,402
Net Income ($M)	(8)	(7)	(7)	(11)	(3)
Canada Housing Trust					
Canada Housing Trust Assets ($M)	127,679	146,108	159,184	161,123	160,112
Canada Housing Trust Liabilities ($M)	127,679	146,108	159,184	161,123	160,112

1 Historical results have been restated to reflect the consolidation of Canada Housing Trust.

2 New components of the financial statements as required by the implementation of the financial instruments guideline in 2007.

3 Excludes investments related to repurchase activities and accrued interest receivable.

4 Effective in 2008, CMHC has adopted a new measure (forgiveness dollars expended) to better capture the Corporation's performance with regards to its renovation programs on- and off-reserve. The target for 2008 for this measure is $130 million.

OUR STRUCTURE

National Office and Regional Business Centres

CMHC's national office is situated in Ottawa. To serve Canadians across Canada, we have five regional business centres and points-of-service or corporate representatives in smaller centres.

Granville Island

CMHC is responsible for the management and administration of Granville Island for which we receive a fee. Granville Island is a cultural, recreational and commercial development in the heart of Vancouver. Capital additions are funded through operations and it is expected that Granville Island be operated on a commercially viable basis.

Canada Housing Trust

Established as an issuer and a legally separate, non-government entity in 2001, the Canadian Housing Trust (CHT) is limited to the functions of acquisition of interests in eligible housing loans, such as *National Housing Act* Mortgage-Backed Securities (NHA MBS), the purchase of highly-rated investments, certain related financial hedging activities, and the issuance of Canada Mortgage Bonds (CMBs). CMBs are guaranteed by CMHC. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations. As required by Accounting Guideline 15 of Canada's Accounting Standards Board, the CHT has been consolidated on CMHC's financial statements.

Our regional business centres:

- Atlantic – Halifax, Nova Scotia
- Quebec – Montreal, Quebec
- Ontario – Toronto, Ontario
- Prairies and Territories – Calgary, Alberta
- British Columbia – Vancouver, British Columbia

Message from the Chairperson
Message from the President



BUILDING ON OUR MISSION THROUGH INNOVATION

MESSAGE FROM THE CHAIRPERSON

AS CANADA'S NATIONAL HOUSING AGENCY, BUILDING ON INNOVATION HAS ALWAYS BEEN OUR KEY TO SUCCESS. TODAY, CANADA'S HOUSING SYSTEM IS ONE OF THE BEST IN THE WORLD.

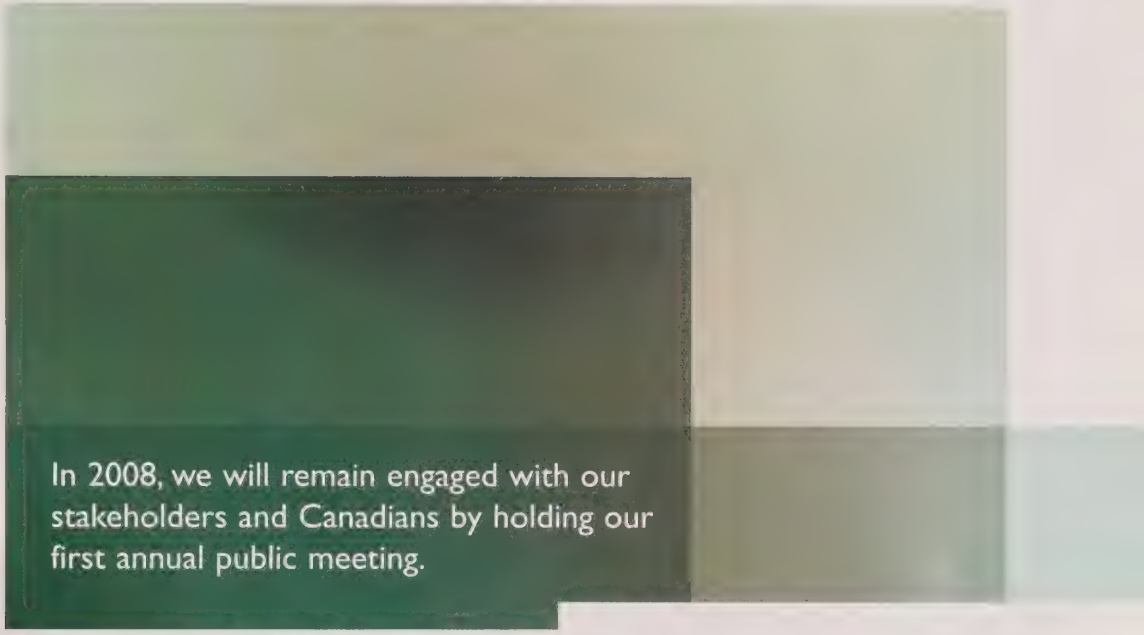
In particular, I am proud that CMHC's long-standing history of leadership and innovation in mortgage loan insurance and securitization has played a key role in putting the Canadian housing finance system on solid ground.

On behalf of the Board of Directors, I am pleased to present CMHC's 2007 Annual Report. Our performance record has proven time and time again its impact – helping Canadians to access affordable housing and has paved the way for continuous improvement in housing quality and stewardship of the environment.

The Board's responsibility is to ensure that CMHC continues to remain at the forefront of innovation and is well positioned to continue to fulfill its mandate as Canada's national housing agency. We support Government of Canada policies and priorities, and work closely with the Minister of Human Resources and Social Development and Minister responsible for CMHC, the Honourable Monte Solberg.

Always with the public's interest in mind, we regularly seek opportunities to listen to the views of Canadians. Twice a year, we hold our Board meetings in locations where we also interact with Canadians in their communities and see first-hand how CMHC and its partners have helped to address housing needs.





In 2008, we will remain engaged with our stakeholders and Canadians by holding our first annual public meeting.

In 2007, Minister Solberg and Board members met with municipal representatives, homebuilders and other industry professionals in Kelowna, B.C., to obtain their views on a variety of housing issues. The Board also met with the Chief and senior members of a First Nation community in the interior of B.C. to learn about innovative approaches being used by Aboriginal communities in that region. We also held a series of round tables in the National Capital Region with our key stakeholders. The insights we gathered throughout the year will help CMHC face the challenges ahead.

We know that one of those challenges is the ever-changing housing finance landscape. CMHC has introduced many innovative mortgage loan insurance and securitization products over the years so that Canadians could have access to affordable financing. This remains one of the key areas of focus for the Corporation as other mortgage loan insurers enter the market and the housing finance needs of Canadians evolve. The Board is vigilant in monitoring the landscape in order to ensure that we understand the strategic issues and opportunities of the Corporation's long-term housing finance directions.

In 2008, we will remain engaged with our [illegible] Canadians by holding our first annual public meeti[illegible] reach is coast-to-coast-to-coast. We are in ever[illegible] and rural. Our employees work with many [illegible] professional basis, but also give of their t[illegible] expertise in communities where the[illegible] remain the backbone of our [illegible] innovative spirit that has made us successfu[illegible]

I wish to acknowledge the outstanding [illegible] Directors who left the Board in 2007 [illegible] and Louis Ranger. The Board welcomes James A. M[illegible] and E. Anne MacDonald of N[illegible] the Board in 2007

I look forward to 2008 and meeting our cha[illegible]



Dino Chiesa
Chairperson of the Board

MESSAGE FROM THE PRESIDENT

HOUSING MATTERS. IT IS THE PATHWAY TO HEALTH AND OPPORTUNITY FOR EACH AND EVERY CANADIAN.

For more than 60 years, this has been a driving force at CMHC.

Our accomplishments in 2007 have made a difference to the lives of thousands of Canadians by increasing access to more affordable and high quality housing.

Working in partnership to help Canadians in need

Throughout our history, we have worked with hundreds of partners to bring innovative housing solutions to Canadians. In 2007, we continued to work with provincial and territorial agencies and other stakeholders to provide affordable housing for low-income Canadians. The federal contribution to assisting Canadians in need is significant:

- Every year, approximately $1.7 billion in federal funding ensures that some 626,000 lower-income families continue to live in housing they can afford.

The federal contribution to assisting Canadians in need is significant

- Since 2001, the Affordable Housing Initiative has resulted in commitments of over 36,000 affordable housing units, 5,005 in 2007, and for every federal dollar spent, an additional $2 has been contributed by provinces and territories and others.
- CMHC's Affordable Housing Centre continued to be an effective catalyst in 2007, working with many other public and private organizations to facilitate the development of more than 3,154 affordable housing units largely without federal subsidy assistance.
- CMHC's family of renovation programs assisted in making repairs or alterations to more than 19,000 homes, rental units and temporary shelters for victims of family violence and the homeless.



Supporting housing innovation for Aboriginal Canadians

The challenges faced by many First Nations communities and Aboriginal Canadians in meeting their housing needs require innovative solutions that will increase their capacity to develop and manage their own housing. CMHC plays an important role in facilitating this capacity:

- In April 2007, the Government of Canada announced a new $300-million First Nations Market Housing Fund that CMHC will help put into operation. As a prime example of innovation that builds on alternative finance techniques pioneered by First Nations, the Fund will provide an additional and innovative financing tool to address the unique challenges for private housing finance on reserves. It will improve access to private capital for housing, increase the housing supply, and provide participating families and individuals with a means to build equity and generate wealth.

- In 2007, 92% of on-reserve programs and services were delivered through First Nations or Aboriginal organizations, well exceeding our target of 80%. CMHC welcomed the incorporation and launch of the First Nations National Housing Managers Association (FNNHMA) this year. Our support for FNNHMA as well as for the First Nations National Building Officers Association (FNNBOA) is an example of how CMHC seeks to increase the capacity of First Nations to manage their own housing.
- CMHC and Habitat for Humanity announced a new Aboriginal housing program where we will work together to facilitate the development of up to 30 homes for Aboriginal families both on- and off-reserve over the next three years.

The success of our work with First Nations is helping to pave the way for innovative approaches driven by, and for, Aboriginal people.

Meeting the housing finance needs of Canadians

Canada has enjoyed a robust housing market for the past several years. For the most part, homeowners have benefited from the increased value of their homes; however, many Canadians aspiring to buy a home are finding it more difficult. Since introducing mortgage loan insurance in 1954, CMHC has continuously improved its insurance products or introduced new products so that Canadians could achieve their dreams of homeownership as markets evolved.

Innovations in mortgage loan insurance over the years have given home buyers and owners more choice when it comes to making housing finance decisions. Borrowers now have a range of options with respect to making their down payment, to managing their cash flow, and to purchasing their second home with a CMHC-insured mortgage. CMHC has also recognized the challenges faced by new Canadians and the self-employed in obtaining mortgage financing by introducing products and policies that meet their needs.

Because of CMHC, mortgage financing is available for Canadians no matter where they live. We are the only mortgage insurer when it comes to large rental housing, nursing and retirement homes, and housing on-reserve. Our presence is felt in both urban and rural areas, in the North and in one-industry towns.

- In 2007, 37% of CMHC's mortgage loan insurance business helped Canadians access homeownership or rental accommodation in markets that are not served or under-served by private insurers.
- Despite more competition at the end of 2007, the number of mortgage loan insurance units approved rose to more than 800,000 units due to innovative insurance products and buoyant market conditions. Insurance in force now stands at approximately $334 billion.

Through our innovative insurance products, Canadians are achieving homeownership and the rental housing market access to more affordable financing.

In 2007, 37% of CMHC's mortgage loan insurance business helped Canadians access homeownership or rental accommodation in markets that are not served or under-served by private insurers.

Contributing to the efficiency of housing finance markets

CMHC is the leader in mortgage securitization, facilitating the availability of low-cost mortgage financing by financial institutions.

Innovation has been the foundation of capital markets and global commerce for centuries. As these markets become more dynamic and competitive, it is essential for us to keep pace

In 2007, we introduced several enhancements to our securitization programs to help increase the supply and variety of mortgages that can be securitized. For instance, we created an opportunity for multi-family property loans to be securitized through the Canada Mortgage Bond (CMB) program, creating access to lower-cost funding for rental accommodation. We also expanded the number of smaller financial institutions participating in our securitization programs.

- In September and December, the CMB program accessed capital markets for $9.5 billion – our largest to date. At a time when mortgage lending institutions in countries were facing liquidity challenges, our CMB program provided much needed lower-cost funding to Canadian mortgage lenders and sent a strong message that Canada's housing finance system and effectively

Bringing better housing to the world

Canada has a lot to offer the world. Our housing industry can supply high quality products and efficient housing systems and components that many are looking for. Promoting Canadian exports strengthens the Canadian housing industry and creates jobs at home. CMHC's expertise in housing policy and housing finance is also sought by countries seeking to adapt Canada's housing solutions to their needs and realities. By making the purchase of homes more attainable in developing countries, we are contributing to economic growth and social advancement around the world.

- CMHC played a key role in supporting the launch of a private mortgage loan insurance company in Jordan this past year. This new company will enhance Jordan's housing finance system by developing the mortgage market.
- The value of CMHC-facilitated sales reported by key export clients last year was $105.83 million, resulting in jobs for Canadians in 2007.
- Despite a rising Canadian dollar in 2007, we successfully delivered our U.S. Platinum program for Canadian exporters. This innovative program offers individual companies customized services to help them enhance their exports to the United States.

Building a sustainable future

One of our main strengths over the decades has been our ability to work with industry to improve the quality and sustainability of Canadian housing and communities. CMHC has been a catalyst for change and technological progress.

- A prime example of CMHC's leadership in promoting sustainability is the launch of the EQuilibrium Healthy Housing Initiative – a groundbreaking approach to the design, construction and operation of homes. The 12 demonstration homes that CMHC is sponsoring will show Canadians first-hand that housing in balance with the environment, yet affordable, is achievable. In 2007, builders broke ground on seven of the 12 homes. We fully expect that the innovative solutions brought forth by the winning EQuilibrium teams will raise the bar, inspiring tomorrow's housing designs, and help Canadians to understand why sustainable housing is so vital to everyone's future.
- Sustainable development goes beyond making homes energy-efficient. Municipal planning can also have a huge impact. The design of communities that employ a modified grid pattern to facilitate access to both commercial and residential properties is an innovation which encourages a more active lifestyle and makes better use of land and infrastructure. In 2007, CMHC helped promote this *Fused Grid* approach; an area structure plan was approved in Fort McMurray and a subdivision development plan is being considered in Calgary. Implementation of this approach is also commencing in Stratford.

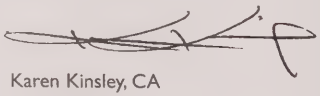
With an ambitious vision, we hope to push the bounds of 21st-century housing design and residential planning to the next level, helping Canadians achieve more vibrant and sustainable communities and a better quality of life.

EQuilibrium – the 12 demonstration homes that CMHC is sponsoring will show Canadians first-hand that housing that is in balance with the environment, yet affordable, is achievable.

Building on innovation

We understand that innovation begins with the right people. As an organization we strive to attract and retain the best and the brightest. But we are facing growing competition, like other employers, for the finest talent. That is why we are committed to our talent and succession management framework which provides the vision for managing our human resources over the coming years.

I would like to acknowledge all of CMHC's dedicated employees, who deserve special thanks for their contribution to the achievement of the Corporation's successes.



Karen Kinsley, CA
President and Chief Executive Officer



BUILDING ON OUR VISION THROUGH INNOVATION

PUTTING HOMEOWNERSHIP WITHIN REACH

CMHC MORTGAGE LOAN INSURANCE PRODUCTS AND SERVICES HAVE EVOLVED OVER TIME WITH THE INDUSTRY AND MARKETPLACE, ADAPTING TO THE CHANGING NEEDS AND EXPECTATIONS OF CANADIAN BORROWERS, HELPING THEM TO ACCESS HOMEOWNERSHIP SOONER AND MORE AFFORDABLY.



The desire to own a home is deeply rooted. Homeownership is a cornerstone of strong communities, and provides individuals and families with stability and long-term financial security. Since 1954, CMHC mortgage loan insurance has been helping Canadians realize their dream of homeownership.

Recent innovations include new products that make it easier for self-employed borrowers to obtain insured financing. Helping new Canadians is another example where we are at the forefront. Many have steady employment and income, but lack a Canadian credit history, making it difficult to meet traditional underwriting requirements. CMHC flexibility in considering these applications is helping many newcomers to Canada get a head start in their new lives.

CMHC's flexible down payment products for borrowers with a proven credit history and our extended amortization options have helped borrowers to better manage their cash flow and housing-related expenditures, especially in the early months and years of homeownership. Our new Small Rental product, supported by prudent qualifying criteria, is supportive of small-scale investment in Canadian rental housing which can be extremely helpful in tight rental markets where supply and affordability are growing concerns.

CMHC has consistently extended housing finance in innovative ways to under-served borrowers, without increasing the risk to the Canadian financial system or jeopardizing the financial well-being of borrowers.

Since 1954, CMHC mortgage loan insurance has been helping Canadians realize their dream of homeownership.

Our success is evident. Canadians enjoy access to low-cost financing, availability of mortgage funds for all forms of housing, and a choice of mortgage lenders. Our mortgage loan insurance strategy will continue to ensure that Canadians have access to the products and tools that are right for them, at the right time and the right price.

RENOVATION PROGRAMS WITH MANY PURPOSES

OUR LONG-STANDING RESIDENTIAL REHABILITATION ASSISTANCE PROGRAM HELPS PEOPLE MAINTAIN THEIR HOMES AND PRESERVES CANADA'S HOMEOWNERSHIP AND RENTAL HOUSING STOCK.

Since 1974, our suite of renovation programs, including the Residential Rehabilitation Assistance Program (RRAP), has been improving substandard, inaccessible and crowded dwellings occupied by Canada's most vulnerable households. CMHC has demonstrated innovation in the face of changing needs by adapting this program over time to achieve a broad range of public policy objectives.

Through the years, new components to RRAP and other programs in CMHC's renovation program suite have been added to address the needs of persons with disabilities, seniors, victims of family violence and the homeless.

CMHC has demonstrated innovation in the face of changing needs by adapting this program over time to achieve a broad range of public policy objectives.

RRAP Conversion funds restored the Stokes Seeds warehouse in downtown St. Catharines, Ontario. Originally built in 1876, this building is now home to 19 high-quality affordable rental units helping those in the community at risk of homelessness.

In Calgary, RRAP for Persons with Disabilities helped to transform the Horizon Housing Society's Hamilton House. This eight-bed transitional and affordable housing residence provides a healthy, protective environment for persons with mental illness. Tenants are able to live within an accepting community, which allows them to achieve independence and a better quality of life



ames Street Lofts, St. Catharines, ON – formerly Stokes

RRAP Rooming House funds pr derelict New Wings Hotel in Known as Sereena's Ho safe and supportive housing fo efforts to live independently, free

CMHC's innovation is both subtle and profound: renovat far beyond mere bricks and mortar. By breathin Canada's existing housing stock, it foundation for low-income Cana raise a family, b and maintain social networks and support

CREATING BETTER HOUSING OPPORTUNITIES ON-RESERVE

DUE TO THE INDIAN ACT, LAND ON RESERVE CANNOT BE USED TO SECURE MORTGAGE FINANCING. ABORIGINAL PEOPLE THUS DO NOT HAVE THE SAME LEVEL OF ACCESS TO PRIVATE-SECTOR FINANCING AS OTHER CANADIANS.



Lennox Island Sustainable Home, 2006 Housing Award Winner, Lennox Island First Nations, PEI – North Elevation

In response, a number of First Nations have pioneered innovative financing techniques to support homeownership. Building on these as well as CMHC's experience in facilitating financing on-reserve with loan insurance, the Corporation is working with First Nations to launch a new $300-million First Nations Market Housing Fund. This Fund will provide an alternative form of security for lending on-reserve where land cannot be used as security.

The Fund will increase housing finance options on-reserve leading to more opportunities for First Nations families to access high quality and affordable housing, and to improve their living conditions and those of future generations.

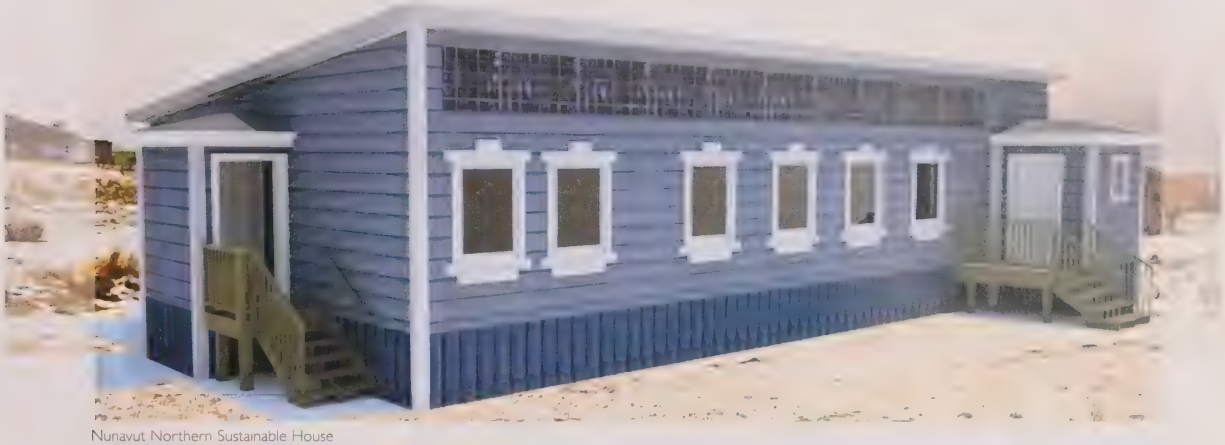
CMHC's role in helping Aboriginal people address their housing needs, whether it is through our housing finance expertise, our assisted housing programs, or our support for capacity building initiatives and sustainable building practices, is one which we are proud to fulfill.



Lennox Island Sustainable Home, 2006 Housing Award Winner, Lennox Island First Nations, PEI – South Elevation

MODERN HOUSING MEETS ANCIENT TRADITION

FOR THOUSANDS OF YEARS, THE CHANGING SEASONS HAVE BEEN INTEGRAL TO THE INUIT WAY OF LIFE. TRADITIONAL INUIT DWELLINGS – SNOW HOUSES IN WINTER AND SKIN HOUSES IN SUMMER – WERE BUILT TO MEET THE DEMANDS OF A HARSH ENVIRONMENT WHILE ALLOWING FOR FAMILY ACTIVITIES.



Nunavut Northern Sustainable House

With the objective of meeting the needs of Inuit households, CMHC in collaboration with the Nunavut Housing Corporation, has facilitated the development of the Nunavut Northern Sustainable House – a house designed so that it reflects the traditions, culture and lifestyle of today's Inuit families.

The Nunavut Northern Sustainable House combines long-held Inuit tradition with the latest energy-efficient technologies, and best practices that support healthy and sustainable living.

An open-concept living room/dining room/kitchen for extended family gatherings and preparing and sharing traditional meals.

Building on ideas discussed in design charrettes with community members, the house responds to the Inuit way of life

- an open-concept living room/dining room/kitchen for extended family gatherings and preparing and sharing traditional meals
- summer and winter entrances oriented to reflect [illegible] weather conditions
- a "cool" room for sewing animal skins and doing [illegible] craft activities
- a large laundry tub and work area for soaking animal skin
- an enclosed area at the winter entrance for storing skin clothing and other [illegible]

This [illegible] bedrooms and covers about 145 square metres. Nunavut Northern Sustainable House is a modern home in balance with Inuit tradition and the environment

CREATING A SECONDARY MORTGAGE MARKET

IN 1987, CMHC INTRODUCED NHA MORTGAGE-BACKED SECURITIES (NHA MBS) LEADING THE WAY TO THE DEVELOPMENT OF THE FORMAL SECONDARY MORTGAGE MARKET IN CANADA. BUILDING ON THAT INNOVATION, IN 2001, WE INTRODUCED THE CANADA MORTGAGE BOND (CMB) PROGRAM.

Both NHA MBS and the CMB Program have contributed to the stability of the housing finance system and the availability of low cost funds for mortgage lending.

CMHC continues to take pride in its latest major innovation in securitization – the CMB Program. Its first issue in 2001 amounted to $2.2 billion. In 2007, the CMB Program demonstrated its status as a premier international issuer by successfully accessing capital markets for $9.5 billion in both September and December. EuroWeek, one of the most prestigious business magazines, has given the CMB Program the Best Canadian Dollar Bond Issue award in 2001, 2002 and 2006.

At a time when financial markets are facing tighter credit conditions Canada Mortgage Bonds continue to provide cost-effective funding to Canadian mortgage lenders.

CMHC will continue to lead the Canadian mortgage market by providing innovative securitization solutions. As many of the originators in the mortgage market are smaller in scale, their ability to compete in the market requires access to a reliable source of low-cost mortgage funds, which the CMB program can help provide.



THE NEXT GENERATION OF HOUSING

AS A PROPONENT OF SUSTAINABILITY AND ENERGY-EFFICIENT HOUSING FOR MORE THAN TWO DECADES, CMHC HAS AN ENDURING LEGACY OF COMMITMENT TO THE ENVIRONMENT. OUR PAST INVESTMENTS IN RESEARCH AND KNOWLEDGE GIVE US OUR ADVANTAGE TODAY.



EcoTerra™ House, Eastman, QC

Working with leading builders, the EQuilibrium Healthy Housing Initiative will demonstrate a new approach to environmentally sustainable housing in Canada. Features of the 12 demonstration houses include climate and site specific design, energy and resource-efficient construction, integrated renewable energy systems, passive solar heating, energy-efficient lighting and appliances, and land/habitat conservation practices.

Although these practices have already been proven effective on their own, the difference is that EQuilibrium uniquely integrates these design and building practices into attractive, healthy and sustainable homes, and seeks to balance the amount of energy required by the home with the amount of energy it can produce on an annual basis.



EcoTerra™ House, E

The homes will show Canadians first-hand th
friendly, resource-efficie
EQuilibrium has t
constructed in this c
EQuilibrium pro
balanced with those of our

As Canada's national housing agency we hav
in shaping thinking

SUPPORTING CANADIAN HOUSING EXPORTERS

CMHC IS TAKING THE LEAD IN SHARING CANADA'S HOUSING EXPERTISE WITH THE WORLD. WE CREATE AND FACILITATE EXPORT OPPORTUNITIES FOR CANADIAN COMPANIES RESULTING IN ECONOMIC GROWTH AND JOBS IN CANADA.

The United States continues to be the largest market for Canadian building products – it is the destination for 93% of Canadian housing exports. The U.S. market is highly competitive, innovative, price-sensitive and extremely service oriented. Penetrating the complex distribution channels for building products is a major challenge for Canadian companies.



To meet that challenge, CMHC developed the U.S. Platinum Program. This innovative approach offers individual companies focused and customized services to facilitate their exports to the U.S.

CMHC's trade consultants use their expertise and extensive networks to ensure that Canadian companies are carefully matched with the right buyers, dealers and representatives. CMHC also provides customized market research and support at trade events.

Two companies which benefited from this program were Novik, a Quebec-based manufacturer of polymer roofing systems and Icynene Inc., an Ontario company that produces environmentally-friendly foam insulation. Canadian exporters have found CMHC's Platinum Program provides them with the flexibility they need and has helped them grow or maintain their international business despite the rising value of the Canadian dollar and the downturn in the U.S. housing market.

Given their successful experience with the Platinum Program, CMHC's export clients are taking an interest in diversifying their target markets. In response, CMHC is applying this customized approach for clients looking for business opportunities in the United Kingdom, France, Russia, Mexico and China.

GIVING BACK TO OUR LOCAL COMMUNITIES

COMMUNITY GIVING AT CMHC IS ROOTED IN OUR BELIEF THAT THE CORPORATION IS CLOSELY CONNECTED TO THE HEALTH AND WELL-BEING OF EACH COMMUNITY WE SERVE. WE BELIEVE IT IS PART OF OUR RESPONSIBILITY TO GIVE BACK TO LOCAL COMMUNITIES IN MEANINGFUL WAYS.

We take an active role when we team up with charitable organizations. We lend our time, energy and expertise in order to help facilitate charitable events and activities, which go on to raise money and ensure success.

During the past year, CMHC through various charitable events raised more than $130,000 for Habitat for Humanity Canada, not to mention the countless volunteer hours spent by our staff and clients working hand in hand to build better communities.

CMHC and Habitat for Humanity Canada worked to raise more than $10,000 for families in need at the Sixth Annual National Capital Gingerbread House Competition.

For example, CMHC employees across Canada went the extra mile in 2007, working alongside other volunteer crews in Habitat for Humanity Canada builds in Charlottetown, Halifax, Windsor, Sudbury, Regina, Saskatoon, and Iqaluit.

In addition, CMHC and Habitat for Humanity Canada worked to raise more than $10,000 for families in need at the Sixth Annual National Capital Gingerbread House Competition. More than 20 local businesses, bakeries and restaurants participated in the competition held in Ottawa. The houses were auctioned off with the proceeds going to help Habitat for Humanity Canada build new homes in the National Capital Region.

CMHC employees, management and volunteers across the country worked tirelessly to make the Government of [illegible] Workplace Charitable campaign for the United Way [illegible] Healthpartners a great success. This year employees and retirees raised $280,000 for use within our local communities.



CMHC volunteer [illegible]

Our employees have a well-established tradition [illegible] to local and national communities. Charitable [illegible] the important ways that CMHC and its employees work [illegible] enrich communities across Canada, helping to make them better places to live, work and grow.


BUILDING ON INNOVATION



BUILDING ON THE PUBLIC'S TRUST

CORPORATE GOVERNANCE

CMHC REPORTS TO PARLIAMENT THROUGH THE MINISTER OF HUMAN RESOURCES AND SOCIAL DEVELOPMENT AND MINISTER RESPONSIBLE FOR CMHC, THE HONOURABLE MONTE SOLBERG, AND IS GOVERNED BY A BOARD OF DIRECTORS THAT IS ACCOUNTABLE TO THE MINISTER.



Back row (left to right): E. Anne MacDonald, Gary P. Mooney, Harold Calla, Sophie Joncas, Dino Chiesa

Front row (left to right): Joel Teal, Alexander Werzberger, Karen Kinsley, Hugh Heron, James A. Millar

Composition of the Board

The Board of Directors comprises the Chairperson, the President and Chief Executive Officer of CMHC, and eight other directors appointed by the Minister responsible for CMHC with Governor-in-Council approval. With the exception of the President and Chief Executive Officer, all Board of Directors are independent of CMHC Management. Effective December 2006, Board appointments may be in effect for up to four years.

Board Mandate

The Board of Directors manages the affairs of the Corporation and is responsible for the conduct of its business in accordance with the *CMHC Act*, the *National Housing Act*, the *Financial Administration Act* and governing by-laws. As steward of the Corporation, the Board of Directors sets out the strategic direction of the Corporation in support of government policies and priorities, provides housing policy advice to the Minister, ensures the integrity and adequacy of corporate management practices, policies and systems, and examines the continued

The **Audit Committee** advises the Board on the soundness of the financial management of the Corporation, assists in overseeing internal control systems, risk management, financial reporting and audit processes including internal audit, the annual financial audit and the periodic Special Examination. The Committee reviews the annual external audit plan with the external auditors. Internal audit services are provided by CMHC's Audit and Evaluation Services (AES) with the Director of AES reporting on a functional basis to the Audit Committee.

The **Corporate Governance and Nominating Committee** is responsible for overseeing and advising the Board on matters of corporate stewardship by monitoring best practices, trends and issues and making recommendations with respect to corporate governance. This includes periodic examination of the continued relevance of the Corporation's objectives and legislated mandate, setting annual corporate priority objectives and targets and promoting effective communication with the Government of Canada, stakeholders and the public. The Committee annually reviews the Corporation's performance against objectives in collaboration with the Human Resources Committee, and evaluates the President and CEO's performance based on the achievement of strategic directions and makes recommendations to the Board regarding the President's compensation. It identifies, evaluates and recommends a shortlist of qualified candidates for the Chairman position and the President and CEO position to the Board for subsequent recommendation to the Minister for appointment by the Governor-in-Council, and advises the Board on matters relating to the composition of the Board and its committees, as well as the criteria for Board membership including experience, attributes and skills. It reviews the existing Board composition on a yearly basis, anticipates openings, reviews skills profiles and advises the Board on recommended changes or procedures.

The **Human Resources Committee** oversees corporate policies and strategies related to human resources and recommends to the Board matters relating to the Corporation's policies governing recruitment, retention, training, diversity, official languages, compensation, and performance management. The Committee is responsible for reviewing succession planning for the leadership of the Corporation and makes recommendations to the Board regarding the organizational plan, the compensation plan and the integration of human resources policies and strategies.

relevance of public policy objectives and ensures alignment of evaluates key corporate risks and the Corporation's overall performance and financial results. To ensure good corporate governance, the Board ensures an appropriate separation of responsibilities between the Board and management.

A number of Board committees are in place to review various aspects of the business and make recommendations to the Board.

CMHC Pension Fund

Established by the Board of Directors, the CMHC pension fund is managed and administered by trustees pursuant to the Trust Agreement. The Trustees are responsible for setting investment objectives and policies, selecting external investment managers and monitoring the investment results of the pension fund. CMHC's pension fund governance structure and practices were reviewed in the context of governance guidelines established by the Canadian Association of Pension Supervisory Authorities.

Governance in practice

Strategic planning

At the outset of the 2008 planning cycle, the Board of Directors reviewed the Corporation's environmental scan, changes in Government of Canada policies and priorities, and other issues, including a specific focus on the changing housing finance landscape which will have an impact on CMHC's mortgage loan insurance and securitization activities. This landscape is characterized by increased competition in mortgage loan insurance, the entry of new mortgage lenders in Canada, changes in capital requirements under the Basel II Accord and, in the last half of the year, the global credit crunch. The Board's planning activities were followed through its ongoing interactions with stakeholders. The planning cycle culminates with Treasury Board reviewing and approving the 2008–2012 Corporate Plan and the subsequent tabling of the Summary of the Corporate Plan in Parliament.

Internal control and financing reporting

The Board received semi-annual updates on strategies mitigating the Corporation and management's assessment of these risks. The Audit Committee advised and the Board approved appropriate policies and risk limits. Quarterly financial and Risk Management reports prepared by management are reviewed by the Audit Committee and subsequently the Board of Directors. It is assured that the Corporation's internal control framework and risk management activities continue to be robust, relevant, balanced and comprehensive.

In 2007, audit projects were completed in areas such as [illegible] and compliance with the Corporation's [illegible] and the Corporation.

CMHC Management
Enterprise Risk Management Letter of Representation
February 15, 2008

This Letter of Representation is provided to the Board of Directors in support of its responsibilities with respect to the identification of the main business risks as outlined in the Board of Directors Mandate and By-Law 44 (relating generally to the conduct of the affairs of the Corporation). The intended purpose is to provide reasonable assurance that management has identified and is managing the main business risks to which CMHC is exposed.

For and during 2007, CMHC Management, through our enterprise risk management structure and process, has:

- Identified and assessed the main business risks to which CMHC is exposed and provided the Audit Committee of the Board of Directors and the Board of Directors with reports throughout the year that are intended to enable them to understand and be apprised of these risks; and
- Reviewed CMHC's risk management policies to ensure that they continue to remain relevant and prudent under our current operating environment and, as required, recommended new policies and/or amendments to existing policies for the consideration of the Audit Committee and then Board of Directors approval.

Based on the work undertaken by CMHC management during this period, and our knowledge of the Corporation's affairs as at December 31, 2007, we represent that:

1. The risk management policies and systems currently in place to identify and manage the main business risks arising from these activities remain relevant and prudent, and that these practices and policies effectively support the Corporation's broader enterprise risk management efforts;
2. The adequacy and integrity of the Corporation's systems and management practices applied, in relation to the management of the main business risks of the Corporation, have been upheld; and
3. CMHC has an effective, corporate-wide, enterprise risk management structure and process in place.

In making this representation, CMHC Management has ensured that a reasonable level of review has been taken to identify and manage the main business risks to the Corporation.

Karen Kinsley, CA
President and Chief Executive Officer

Enterprise Risk Management (ERM) Letter of Representation

In 2007, CMHC Management adopted a practice of providing the Audit Committee and the Board of Directors with an ERM Letter of Representation on an annual basis. The purpose of the letter is to support the Audit Committee's and the Board's responsibilities with respect to risk management. In adopting this practice, CMHC Management seeks to represent that a reasonable level of review has been taken to identify and manage the main business risks to the Corporation.

Program evaluation

Program evaluations provide management, the Board, the Minister, as well as the general public with objective assessments of the relevance and effectiveness of policies and programs. Evaluations of the federally-funded renovation programs, and the Affordable Housing Initiative, were approved in 2007 and will be completed in 2008.

Special Examination

The Board is committed to good corporate governance practices and views the results of special examinations as providing added value to CMHC. In 2008, CMHC's joint examiners will be proceeding with a Special Examination, as required by the *Financial Administration Act*. The most recent examination was undertaken in 2004 and CMHC received a clean opinion, which was also the case with the three previous special examinations. The 2004 Special Examination Report included five recommendations that were acted upon by the Board in order to maintain its strong corporate governance practices. CMHC's internal audit division has kept the Audit Committee and the Board informed of the progress toward the implementation of these recommendations.

Organizational effectiveness

In 2007, the Human Resources Committee reviewed and recommended a number of items to the Board for approval. These included a review of the Corporation's compensation policy to ensure that it continues to be fair and competitive. Some adjustments were approved and implemented in October. The Human Resources Committee also continued to oversee CMHC's Talent and Succession Management Framework.

CMHC's Talent and Succession Management Framework

This initiative will ensure that CMHC continues to attract and retain the talented employees it needs to meet its objectives. This comprehensive framework encompasses anticipating, recruiting and developing the talent we need and creating an environment that fosters engagement and rewards employees for their contribution. The Board takes a proactive role in ensuring that CMHC is able to recruit and retain strong employees and pays special attention to succession planning, one of the cornerstones of CMHC's Talent Management Framework.

The National Management Team Framework was created in 2007 in order to ensure that CMHC and its employees continue to benefit from strong leaders. The new framework and its parameters place increased priority on the role of members of the National Management Team as managers of talent throughout the organization. More emphasis will also be placed on creating learning and development opportunities for the Team's current members as well as employees who aspire to management and leadership positions within CMHC. Development can be achieved through mentoring, special assignments and formal training, all customized to the needs of the individual.

Improving Crown corporation governance

As a Crown corporation, CMHC is required to fulfill public objectives using public funds. It must be as well as reasonable tools, always in keeping with the highest standards of efficiency and transparency, while offering high client satisfaction and reasonable returns. As a result, the Board of Directors evaluates CMHC's performance based on the principle that its fundamental purpose is the creation of value for Canadians. Fulfilling that purpose rests on the achievement of public policy objectives, solid financial results and efficient governance.

The Board of Directors takes actions to ensure that CMHC's governance regime meets best practices.

- Early in 2007, updated terms of reference for the Board of Directors and its Committees were posted on CMHC's Web site.
- the Board was informed of the new *Federal Accountability Act* and how it relates to CMHC's current policies on Conflict of Interest and Standards of Conduct. Board members and all CMHC employees renewed and updated their Conflict of Interest Declarations; and
- the Governance and Nominating Committees were merged in 2007. The new committee will help streamline decision-making, increase the engagement of Board members on related topics and provide valuable input into the Corporation's Talent and Succession Management Framework.

Succession in corporate governance is also crucial to the success that Board members understand their roles and responsibilities as corporate stewards. CMHC provides orientation sessions for new directors, followed by periodic meetings to ensure that Directors maintain the skills and knowledge necessary for them to meet their obligations. All Board members are encouraged to attend governance courses organized by the Canada School of Public Service and the Institute of Corporate Directors. Committee members receive other training sessions based on the Canadian Institute for Chartered Accountants.

As part of its succession planning, the Board and its committees strive for a proper balance of skill, diversity, personal experience and gender. It maintains a skills matrix to identify Board members' representation and knowledge of banking, credit and other areas of expertise.

In order to assess its effectiveness and identify opportunities for improvement, the Board conducts annual reviews of its performance and committees. Every three years, the Corporation's Board of Directors undergoes an external review. The most recent review was in 2006. The recommendations were implemented.

CMHC Board Committees

Meetings, membership and highlights of key activities in 2007

Committee	Meetings	Membership (as of December 31, 2007)	Key Activities
Audit	4	**Ms. Joncas,** CA, *Chair* Mr. Calla, CGA, CAFM Mr. Teal	1. Examined the impacts of new accounting guidelines and industry practices to ensure fair presentation of financial information. 2. Established new audit performance measures. 3. Approved the annual internal audit plan. 4. Received and considered the *Quarterly Financial and Risk Management Report (QFRM)* and semi-annual risk management assessment. Assessed the implications of the collapse of the ABCP market. 5. Received and considered reports regarding the Disclosure of Wrongdoing in the Workplace. 6. Updated directors' travel and hospitality policy.
Governance and Nominating[1]	2	**Mr. Chiesa,** *Chair* Ms. Joncas, CA Mr. Mooney Mr. Werzberger	7. Recommended the new director profiles and updated the Terms of Reference for the Board and its committees. 8. Approved the job description for the President and CEO.
Human Resources	3	**Mr. Heron,** *Chair* Mrs. MacDonald, BA, LLB Mr. Millar Mr. Werzberger	9. Recommended changes to the application of compensation policy. 10. Reviewed progress of succession management and talent management initiatives. 11. Reviewed a new framework and parameters for the National Management Team. 12. Reviewed the 2006 employee demographic profile.

[1] The Governance Committee and Nominating Committee were merged in October 2007

Directors' total compensation and attendance at meetings of the Board and of Board Committees in 2007

Board Member	Total Compensation[1] (fees and retainer $)	Board of Directors (six meetings)	Audit Committee (four meetings)	Governance and Nominating Committee[2] (two meetings)	Human Resources Committee (three meetings)	Pension Fund (three meetings)
Dino Chiesa	40,940	6/6		2/2	3/3	
Karen Kinsley, CA[3]	N/A	6/6	4/4		3/3	3/3
Harold Calla, CGA, CAFM	29,700	6/6	4/4			
Roberta Hayes[4]	18,704	4/4			2/2	
Hugh Heron	26,200	6/6			3/3	
Sophie Joncas, CA	30,200	6/6	4/4	2/2		
E. Anne MacDonald, BA, LLB[5]	7,015	2/2			1/1	
James A. Millar[6]	13,398	4/4			1/1	
Gary P. Mooney	20,700	5/6		2/2		
Louis Ranger[3,7]	N/A	1/2			0/1	
Joel Teal	22,200	5/6	4/4			0/1
Alexander Werzberger	25,000	6/6		2/2	3/3	

that set out the form, amounts and conditions of payment for the part
in-Council The Chairperson of the Board is responsible for approving p

The Governance and Nominating Committee were merged in October 200

Members of the Public Service are not paid for their service

Term ended September 19, 2007

Appointed September 20, 2007

6 Appointed April 2, 2007

Term ended March 30, 2007


BUILDING ON INNOVATION



BUILDING ON OUR VALUES THROUGH INNOVATION

LIVING OUR CORPORATE VALUES



Values in practice

We are strongly committed to bringing about results that benefit Canadians and our communities. Living our values is practiced in the delivery of our programs and is embodied in everything we do.

Ethics

CMHC's ethics framework is the cornerstone of our commitment to good governance. The framework includes Standards of Conduct, a Conflict of Interest policy, values and ethics training, as well as a process for employees to bring forward information concerning wrongdoing in the workplace. CMHC's Standards of Conduct and Conflict of Interest policies guide the Corporation's commitment to ethical behaviour.

CMHC requires that employees and the Board Directors be familiar with and adhere to the guidelines set out in our Conflict of Interest policy, and they must complete a declaration to this effect. In 2007, CMHC fully automated our Conflict of Interest Declaration, facilitating disclosure under the policy and allowing employees to complete their declaration online and update it regularly.

CMHC continued to conduct ethics awareness sessions throughout the Corporation in 2007. The sessions provide a forum for employees to discuss with their colleagues the important ethical issues they confront in their work, and offers guidance to help them resolve everyday situations. Since the inception of the sessions, 98% of CMHC employees have participated.

Lessening our impact on the environment

We manage our direct impact on the environment. We have focused considerable attention on environmentally friendly initiatives through our service delivery. All our operational areas have implemented measures that save energy, minimize environmental impacts and promote the protection of natural resources. For example, CMHC regularly uses recycled paper,

works toward reducing paper consumption and has introduced recycling initiatives for construction debris, food packaging, batteries, office consumables and used office equipment.

As of June 2006, CMHC became subject to the requirements of the *Canadian Environmental Assessment Act*. This legislation requires an environmental assessment of a proposed project where a responsible authority, such as CMHC, is the proponent, transfers land, provides funding or issues a permit or authorization. Policies and procedures for some business lines have been adapted to meet the Corporation's obligations under the Act.

Employee engagement

CMHC has a well established President's Advisory Council (PACo), which provides employees with the opportunity to share their concerns, suggestions and recommendations with the President. Through PACo, the Corporation has made progress on many items.

For example, management recently re-established the Position Evaluation Committee to ensure that the benchmarks used to classify CMHC jobs accurately reflect the nature of the work at CMHC today. In addition, PACo members have been asked by management to review information about the application of performance management principles to offer more guidance to managers and employees as they work through the performance management cycle.

While PACo is one of many mechanisms for employees to contribute their ideas and raise their concerns, PACo members highlight opportunities for improvement that employees feel are important in their work environment and that will help them stay motivated to achieve their own objectives, while contributing to the Corporation's success.

In 2007, CMHC participated in an employee engagement survey conducted by Towers Perrin. The survey results confirmed a high level of engagement among our employees and the extent to which CMHC is considered a great place to work. The Corporation's results were consistently above the Canada All Sectors benchmark in every area evaluated. For example, 95% of CMHC employees willingly give more than what is expected in order to help the Corporation succeed. Most significantly, 85% of CMHC employees are personally motivated to help CMHC be successful, more than double the Canadian norm.

CMHC will use the survey results to find ways to further enhance its work environment and will participate in the survey in 2008 to compare its progress to others and, more importantly, to continue to improve the CMHC workplace.

Retention rate and voluntary turnover rate

The Corporation has successfully attracted and retained talented and well-trained employees over the years. As a testament to the success of our ongoing efforts to ensure an engaged workforce, CMHC's retention rate of regular employees hired three to five years ago was 94.1% in 2007. Our voluntary turnover rate among regular staff at 4.1% is better than comparable types of employers, such as financial services industries (7.7%) and the government sector (5.1%).

Training

CMHC employees have access to excellent learning and development opportunities. In 2007, nearly 30% of employees were involved in a temporary development assignment, lateral transfer or promotion. Furthermore, at 2.8% of payroll or $2,151 per employee, CMHC's learning investments exceed the average investment in the financial services sector and are in the top 10% of Canadian firms.

Diversity

CMHC prides itself on building a diverse workforce, and recruiting employees from a wide variety of backgrounds. For the second year running, the Corporation's leadership in this area was recognized in 2007 by Human Resources and Social Development Canada with a quadruple "A" rating in its 2006 Employment Equity Annual Report, the highest possible rating. Once again this placed CMHC as one of the top federally-regulated employers based on overall ratings. The Corporation also received the highest compliance rating, "5," for our reporting process.

In 2003, the Corporation established targets to ensure that CMHC fully represents Canada's diverse workforce by 2009. By fostering diversity, we are better equipped to build stronger relationships with a range of communities, enhance our creativity and effectiveness as an organization, and expand our business opportunities at home and abroad.



For instance, recent immigrants to Canada often require specialized services to help them access suitable housing. Given Canada's rising immigration rates and the Toronto area's burgeoning multicultural population, CMHC has implemented a wide-ranging multicultural communications strategy in that city. Key CMHC information products are distributed in six languages (Chinese, Russian, Spanish, Tagalog, Arabic and Urdu) in addition to English and French, to targeted organizations in Toronto that serve new Canadians. As well, CMHC's culturally diverse staff is often able to offer assistance to new Canadians who want housing information in their first language.

Official Languages

CMHC is committed to providing a workplace supportive of the use of both official languages. Providing language training to employees is central to encouraging bilingualism, and essential to ensuring that the Corporation is able to serve Canadians in the official language of their choice. CMHC's progress with respect to service in person was recognized in the 2006–2007 Annual Report of the Office of the Commissioner of Official Languages.

To ensure we continue to enhance our performance in this area, a corporate-wide awareness campaign on official languages will be launched in 2008.

Recognition

In 2007, CMHC was the proud recipient of a Government of Canada Award of Excellence. CMHC was acknowledged for our role in the Treasury Board's Service Improvement Initiative (SII). This initiative was a key government priority and greatly improved access to quality government services by Canadians as well as by international clients. The SII had as one of its objectives, the achievement of a 10% improvement in client satisfaction with federal public services over the 2000 to 2005 period.

CMHC was recognized in particular for our contribution to increased client satisfaction in the area of financial services provided by the federal government. Client satisfaction in financial services, which included a number of Crown corporations as well as CMHC, improved by 17% during the period from 2000 to 2005, well above the target. The award reflects the hard work and dedication of all CMHC employees. It demonstrates our commitment to serving Canadians in a competent, fair and timely fashion.

The Canadian Association of Accredited Mortgage Professionals (CAAMP) recognized the Corporation with its prestigious Partner in Excellence award in 2007. This honour is a result of our partnership with CAAMP over the past 10 years, including our contributions to the CAAMP Board of Directors and many CAAMP committees, as well as to their education programs and other initiatives, such as sponsorships and volunteerism.



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BUILDING ON OUR PERFORMANCE

THROUGH INNOVATION

ECONOMIC DEVELOPMENTS IN 2007

STRONG GROWTH IN EMPLOYMENT AND INCOME HELPED SUPPORT MOST ASPECTS OF THE CANADIAN ECONOMY, INCLUDING THE HOUSING SECTOR.

Overall economic growth was 2.6% for 2007, off slightly from 2006's 2.8% pace. This drop is attributed to financial market concerns south of the border due to the sub-prime meltdown, as well as a strong Canadian dollar that reached an all-time noon-rate high of $1.09 U.S. in November. The high dollar has negatively affected the Canadian export market, and will continue to do so in 2008. The range of Gross Domestic Product (GDP) forecasts for Canada in the February 2008 Consensus Economics Survey was from a low of 1.1% to a high of 2.8% with the average being 1.8%.

The Consumer Price Index (CPI) for 2007 increased by 2.4% when compared to 2006. The key contributor to this increase was the price of gasoline, which was up 14.9% during 2007 due to record-high global oil prices. Core inflation, which excludes the eight most volatile components of the CPI, was up 1.5% during 2007.

The Bank of Canada has reduced its target for the overnight lending rate on two separate occasions over the past few months; a 25 basis points decrease to 4.25% on December 4, 2007 and another 25 basis points decrease to 4.00% on January 22, 2008. The Bank expects that the domestic components of Canada's economy will remain strong; however continuing problems with respect to the U.S. sub-prime market will weigh on global economies. As a result, credit markets remain uncertain.

In response to tighter credit conditions, several central banks, including the Bank of Canada, the U.S. Federal Reserve, and the Bank of England launched temporary measures to provide short term funds to depository institutions against a wide variety of collateral. Essentially, allowing banks to obtain short-term funding from the central banks and post their distressed commercial paper to secure loans.

During 2007, employment increased by 370,000 jobs or 2.2%, while the rate of unemployment fell to 5.9%. The level of employment reached near-record levels and this supported high levels of consumer confidence and strong demand for housing.

Canadian housing starts increased slightly to 228,343 units during 2007. Starts are expected to decrease gradually during 2008 to 211,700. However, continuing strong labour markets and a resilient economy in general will continue to be a solid underpinning for Canada's housing sector.

ENTERPRISE RISK MANAGEMENT

WE ARE COMMITTED TO ACHIEVING OUR PUBLIC POLICY OBJECTIVES AND APPLYING SOUND RISK MANAGEMENT PRINCIPLES AND BEST PRACTICES IN THE ONGOING IDENTIFICATION AND MANAGEMENT OF THE RISKS IMPACTING OUR BUSINESS ACTIVITIES.

CMHC is exposed to a range of risks that could have an impact on our success. Managing these risks is key to the achievement of our business objectives and strategies.

Responsibility for risk management is shared between the Board of Directors, management, and operational units. The Board oversees risks at the governing level, approving risk policies and ensuring that required processes and systems are in place. CMHC Management monitors risks, reports to the Board on the Corporation's overall risk profile, recommends financial and non-financial risk policies and oversees financial positions, risk exposures, financial strategies and performance. At the operating level, specialized risk functions exist to address financial, legal and regulatory, security, and other specific types of risk. CMHC's governance structure ensures that significant issues are elevated from the operating and oversight levels to management and the Board.

Our approach to enterprise risk management allows the Board, management, and employees to proactively assess and act on issues and opportunities. Under CMHC's enterprise risk management approach, risks are grouped under three broad categories: strategic, infrastructure and specific risks.



SUMMARY OF FINANCIAL RESULTS

Revenues and Expenses

CMHC revenues and expenses are associated with these principal business activities:

- **Housing Programs:** Expenditures and operating expenses are funded by Parliamentary Appropriations.
- **Lending:** Revenues are earned from interest income on the loan portfolio which is funded through borrowings.

  Housing Programs and Lending activity support housing for those in need and are operated on a breakeven basis.
- **Insurance:** Revenues are earned from premiums, fees and investment income. Expenses consist of operating expenses and net claims expenses. The Corporation's net income is primarily derived from this activity.
- **Securitization and Canada Housing Trust:** Securitization revenues are earned from fees and investment income. Expenses consist of operating expenses. CHT revenue is earned primarily from income on investments in NHA Mortgage-Backed Securities and to a lesser extent from investment in short-term securities. Revenues derived from investment income are used to cover operating expenditures and Canada Mortgage Bonds (CMBs) interest expense. As such, CHT is operated on a breakeven basis.

Key Financial Results

Results in $M except staff years	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Revenues	8,378	8,137	**9,746**	9,482
Expenses	6,896	6,606	**8,172**	7,905
Income Taxes	456	498	**504**	482
Net Income	1,026	1,033	**1,070**	1,095
% of Planned Net Income Achieved	106%	95%	**104%**	95%
Other Comprehensive Income[1]	N/A	65	**(200)**	90
Comprehensive Income[1]	N/A	1,098	**870**	1,185
Resource Management				
Operating Expenses	298	362	**347**	355
Staff Years[2]	1,877	1,897	**1,888**	1,928

1 New components of the financial statements required by the implementation of the financial instruments standards effective January 1, 2007

2 Canada Housing Trust has no staff years.

Net Income

Net Income was $1.1 billion in 2007, $37 million (4%) above plan as a result of higher than anticipated investment income in both the Insurance and Securitization portfolios.

Net Income

Performance Measure	2006 Actual	2007 Plan	2007 Actual	2008 Plan
% of Planned Net Income Achieved	106%	95%	**104%**	95%

Other Comprehensive Income

Other Comprehensive Income (OCI) results from gains or losses based on fair valuation of investments in Insurance and Securitization activities. In 2007, the fair valuation of these instruments resulted in the recording of a loss of $200 million compared to a planned gain of $65 million. While this underachievement appears substantial ($265 million), the majority of CMHC's Investment Securities form part of a long-term strategy and short-term fluctuations at any point in time are not indicative of the portfolio's long-term performance.

ISSUE IN FOCUS

Asset-Backed Commercial Paper Market

In the latter part of the year, global financial markets experienced a liquidity crisis brought on by rising concerns regarding the quality of assets underlying certain financial instruments. In Canada, this crisis has been contained to Third-Party Asset-Backed Commercial Paper, i.e., short-term investment trusts not sponsored by major financial institutions. The Corporation held Asset-Backed Commercial Paper (ABCP) as part of its normal day-to-day investment activity. CMHC continues to play an active role on the Pan-Canadian Investors Committee, which was tasked with finding a solution to the Third-Party-sponsored ABCP crisis. On December 23, 2007, an agreement in principle was announced by the Committee regarding the restructuring of ABCP.

At December 31, 2007 CMHC held $249 million of Third-Party ABCP, while [illegible] none. CMHC adjusted the carrying va[illegible] Party ABCP by $23 million to recognize [illegible] the value of some of the conduits, [illegible] reduction in liquidity of the commercial [illegible] uncertain nature of the terms and cond[illegible] eventual restructuring.

CMHC's ability to respect its commi[illegible] fulfill its mandate was not impacted [illegible] liquidity issue. CMHC does not an[illegible] difficulties in respecting future obliga[illegible] continuing its normal course of busines[illegible]

Balance Sheet Highlights

Balance Sheet				
Results ($M)[1]	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Total Assets	124,218	127,548	148,168	[illegible]
Total Liabilities	118,764	120,751	141,174	[illegible]
Accumulated Other Comprehensive Income (AOCI)	N/A	292	328	[illegible]
Contributed Capital	25	25	25	[illegible]
Unappropriated Retained Earnings	1,698	2,047	2,383	[illegible]
Retained Earnings Set Aside for Capitalization	3,731	4,433	4,258	[illegible]
Retained Earnings	5,429	6,480	6,641	[illegible]
Total Equity of Canada	5,454	6,797	6,994	[illegible]

As a result of the Financial Instruments accounting standards, certain financial instruments are recorded at fair value beginning in 2007. 2006 figures were all recorded at cost or amortized cost.

Assets and Liabilities

In 2007, total assets were $148 billion, 16% over plan. Total liabilities were $141 billion, 17% over plan. Assets and Liabilities are significantly over plan as a result of the success of the CMB Program over the last year and a half. Issuance of CMB exceeded plan significantly in both 2006 and in 2007.

Equity of Canada

Equity of Canada is made up of three components:

- Contributed Capital;
- Accumulated Other Comprehensive Income (AOCI) which includes net unrealized gains and losses on Available for Sale financial assets net of taxes as well as transitional adjustments relating to the newly adopted accounting standards; and
- Retained Earnings which are the result of an accumulation of past profits/losses (net income/loss) as well as transitional adjustments relating to the newly adopted accounting standards.

The Equity of Canada is treated as an asset in the Government of Canada's financial statements.

Contributed Capital

The capital of CMHC is $25 million unless otherwise determined by the Governor-in-Council.

AOCI

AOCI was $328 million at the end of 2007 as compared to 2007–2011 Corporate Plan figure of $292 million.

Retained Earnings

As a federal Crown corporation, CMHC's Retained Earnings are consolidated annually with the financial results of the Government of Canada in the Public Accounts. This means that CMHC's Net Income has been recognized in the government's revenues dollar-for-dollar.

The *CMHC Act* and the *National Housing Act* govern the use of the Corporation's Retained Earnings. In particular, the Retained Earnings of the Insurance and Securitization activities may be used only for the capitalization of CMHC's Mortgage Loan Insurance and Securitization operations, for payment of a dividend to the Government of Canada, for purposes of the *National Housing Act* or the *CMHC Act*, or any other purposes authorized by Parliament relating to housing, and for retention. In the last several years, CMHC's Insurance and Securitization Retained Earnings have been used only for capitalization (Appropriated Retained Earnings) and for retention (Unappropriated Retained Earnings).

As CMHC's annual net income is accounted for by the Government of Canada, use of Mortgage Loan Insurance or Securitization Retained Earnings for purposes other than capitalization, retention or dividends to the Government of Canada effectively represents a new expenditure by the Government of Canada.

Retained Earnings for the Insurance Activity are appropriated to meet a target level of capitalization in accordance with guidelines set out by the Office of the Superintendent of Financial Institutions (OSFI). Although not regulated by OSFI, CMHC follows OSFI's guidelines as a prudent business practice and to maintain a level playing field with private sector mortgage insurers. The Mortgage Loan Insurance ("MLI") Retained Earnings must also be viewed in the context of an insurance business with $334 billion (2006 – $291 billion) of insurance in force. Retained Earnings set aside for capitalization only represent 1.3% of this contingent liability (2006 – 1.3%).

CMHC achieved its targeted level of capitalization in 2005 and maintained it throughout 2006 and 2007. It is expected that CMHC will remain at 100% of its target level of capital for the foreseeable future. While the current economic and housing conditions have been favourable to the mortgage loan insurance business, economic conditions are cyclical and insurance providers need to recognize and provide for this in managing their business over the long term.

Retained Earnings of the Lending Activity are being kept by the Corporation as part of its strategy in dealing with its interest rate risk exposure on pre-1993 loans, and to guard against fluctuations resulting from the financial instruments accounting standards.

These Retained Earnings are subject to statutory limits which, when exceeded, trigger a dividend to the Government of Canada.

Change in Accounting Policies

CMHC's accounting policies are summarized in note 2 of the Consolidated Financial Statements. The following describes the changes in accounting policies which had the most significant impact on the Corporation's financial statements.

- Section 1530, *Comprehensive Income*;
- Section 3251, *Equity*;
- Section 3855, *Financial Instruments – Recognition and Measurement*;
- Section 3861, *Financial Instruments – Disclosure and Presentation*; and
- Section 3865, *Hedges*.

Effective January 1, 2007, the adoption of these new standards by CMHC and CHT has resulted in changes in the recognition, measurement and disclosure of financial instruments and hedges. This has had a significant impact on the Corporation's results as well as on the financial statement presentation.

Prior to the adoption of the new standards, all financial assets and financial liabilities were recorded at either cost or amortized cost. Under the new standards, financial assets and financial liabilities are initially recognized at fair value and subsequently accounted for based on their classification. The choice of classification depends on the purpose for which the financial instruments were acquired and their characteristics. In simplified terms, financial instruments which are intended to be held to maturity can continue being recorded at cost or amortized cost. Other financial instruments must be accounted for using fair value. The resulting unrealized gain or loss on valuation is recorded in the calculation of Net Income if the instrument is deemed to support a short-term strategy or a hedging relationship; but it is recognized in Other Comprehensive Income if it is deemed to support a longer-term strategy such as the mortgage loan insurance and securitization activities.

Comprehensive Income is composed of Net Income and Other Comprehensive Income.

Accumulated Other Comprehensive Income (AOCI) is a separate component of Equity of Canada and is an accumulation of Other Comprehensive Income as well as transitional adjustments relating to the newly adopted accounting standards.

Adjustments to Balance Sheet due to Changes in Accounting Standards

The new standards were to be applied prospectively. As a result, transitional adjustments were recorded as at January 1, 2007 as an adjustment to Retained Earnings or AOCI depending on the nature of the adjustments. The impact on the opening Balance Sheet is as follows:

- Consolidated Assets increased by $620 million
- Consolidated Liabilities decreased by $46 million
- Retained Earnings increased by $132 million
- AOCI increased by $534 million

The unrealized loss on financial instruments at fair value resulted in a $7 million impact on consolidated net income for 2007.

Future Accounting Changes

The following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) Handbook become effective for the Corporation and CHT on January 1, 2008: Section 1535, *Capital Disclosures* which requires an entity to disclose its objectives, policies and processes for managing capital and Sections 3862 *Financial Instruments – Disclosures*, and 3863 *Financial Instruments – Presentation* which replace CICA Handbook section 3861, *Financial Instruments – Disclosure and Presentation* and enhance disclosure requirements on the nature and extent of risks arising from financial instruments and how the entity manages those risks.

OBJECTIVE ONE

HELP CANADIANS IN NEED

Resources: $57 million in operating expenses and 363 staff years

Our Priority: Help Canadians in Need Access Affordable, Sound and Suitable Housing

Performance vs. Plan

Performance Measures	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Housing program expenses, excluding operating expenses (million $)[1]	2,049	1,930	**1,912**	2,333
Estimated number of households assisted[1]	630,000	630,400	**626,300**	628,300
Affordable Housing Initiative expenditures (million $)	167	82	**95**	73
Affordable housing units facilitated by CMHC's Affordable Housing Centre (Formerly affordable partnership units facilitated)	3,422	1,650	**3,154**	1,900
Estimated new commitments under strategic initiatives (renovation and repair programs: RRAP, ERP (off-reserve only), HASI and SEP both on and off-reserve) in units and million $. (Variance due to $256 million, 2-year extension of these initiatives announced by the Government of Canada.)[1]	20,535 (units) 155.0	3,694 (units) 22.6	**19,049 (units)** **109.9**	N/A[2]
Affordable units facilitated through CMHC mortgage loan insurance flexibilities	1,455	1,250	**1,660**	N/A[3]
Annual direct lending – new business (million $)[1]	385.3	122 to 131	**156.3**	191 to 206
Annual direct lending – subsequent renewals (million $)[1]	1,933	842 to 906	**1,065.2**	1,205 to 1,295

1 Data above includes on- and off-reserves.

2 Effective in 2008, CMHC has adopted a new measure (forgiveness dollars expended) to better capture the Corporation's performance with regards to its renovation programs on- and off-reserve. The 2008 target for this measure is $130 million

3 Although there is no target for 2008, it will continue to be monitored.

CMHC attained or exceeded its performance measures with respect to helping Canadians in need. The target for new commitments under CMHC's renovation programs was well above original plan as a result of the Government of Canada's announcement in late December 2006 that these programs would be renewed for two years for a total expenditure of $256 million. It is estimated that some 38,000 low-income households will be assisted with this renewal. During 2007, CMHC signed agreements with all of the provinces and territories that choose to deliver the federally assisted renovation programs to extend the existing program delivery arrangements.

New direct lending loans and renewals were above planned levels. Direct lending new business was higher than projected due to an increase in the delivery of new construction loans on-reserve. As for renewals, the volume was higher due to the resolution of a large number of loans previously extended on a month-to-month basis.

Our activities are intended to achieve these outcomes:

- Help low-income households access sound and suitable housing so that they are able to afford other household necessities, thus reducing the strain on their limited economic resources.
- Help clients from the non-profit and private sectors, as well as municipalities to produce affordable housing without ongoing government subsidy through capacity building, relationship-building, information-sharing and advice and guidance.
- Contribute to better housing policy by raising awareness of housing issues and potential solutions concerning Canadians in need so that government has the information to correctly assess policy options.

- Contribute to the health and safety of assisted households, thus reducing pressure on the health care system. Good indoor air quality reduces exposure to health threats. Housing in good repair reduces injury risks. And barrier-free design extends independent living for seniors, and persons with disabilities.
- Direct lending lowers the federal government's cost of subsidizing social housing, thus alleviating pressure on federal resources.
- Maintain and preserve the existing stock of social housing, which provides a stable base for low income households to obtain employment, raise a family, build relationships, and establish and maintain social networks and supports.

Challenges Ahead

The issues and drivers in the upcoming planning period include:

- In 2001, 1.5 million Canadian households lived in housing that did not meet affordability, adequacy or suitability standards. Renters were over four times as likely as owners to be in core housing need.
- Some social housing contributions under long-term agreements have begun to expire.
- The Affordable Housing Initiative will expire in March 2009.
- While in December 2006, the Government of Canada announced a two-year, $256 million extension of CMHC's renovation programs, these programs will expire in March 2009.

In 2008, CMHC will:

- Continue to carry out its core activities which include housing programs and agreements such as existing social housing commitments, the Affordable Housing Initiative and the renovation programs.
- Continue to facilitate the development of affordable housing through its community development activities by strategically working with clients and stakeholders, and through the transfer of information aimed at advancing affordable housing solutions
- Share and develop information on the current condition of the existing social housing stock and the characteristics of residents.
- Undertake an assessment of the economics of new rental housing.
- Complete evaluations of the Affordable Housing Initiative and CMHC's renovation programs and assess their effectiveness in achieving government objectives in advance of their termination in March 2009.
- Explore options for the Federal Co-operative Housing Stabilization Fund, which is scheduled to expire in 2010.
- Provide information to the new Canadian Mental Health Commission on housing circumstances of persons with mental illness.

Our Priority: Support Aboriginal Canadians to Improve Their Living Conditions

Performance vs. Plan

Performance Measures	2006 Actual	2007 Plan	2007 Actual	2008 Plan
New commitments of on-reserve non-profit units	[illegible]	[illegible]	1,442	[illegible]
Commitment to Housing Internship Initiative for First Nations and Inuit Youth (million $)			1	
% of delivery of on-reserve programs and services through First Nation or Aboriginal organizations	[illegible]	[illegible]	92%	[illegible]
Homeowner units insured or facilitated through the adoption of market-based housing finance tools	[illegible]	[illegible]	190	[illegible]

CMHC's attained all of its targets with respect to delivering new commitments on-reserve and increased the capacity of Aboriginal people to manage their own housing. In addition, CMHC facilitated homeownership on-reserve through CMHC loan insurance or other market-based housing finance tools.

Our activities are intended to achieve these outcomes

- Contribute to the health and safety of Aboriginal households by improving and maintaining the existing housing stock which has deteriorated due to over-crowding and resultant problems such as mold contamination

- Maintain and preserve the existing stock of social housing on-reserve which provides a stable base for very low-income Aboriginal households to obtain employment, raise a family, build relationships, and establish and maintain social networks and supports.
- Contribute to the financial security of Aboriginal households through homeownership, which is a key driver for creating wealth and underpins a sense of ownership and belonging in a community.
- The provision of on-reserve social housing levers infrastructure investment and promotes the development of housing systems within Aboriginal communities including housing-related employment, health facilities, and community services.
- Help Aboriginal people develop, maintain, and manage housing, through training assistance and advice, and develop related institutional capabilities.
- Contribute to better housing policy by raising awareness of housing issues and potential solutions concerning the Aboriginal population so that government has the information to correctly assess policy options. Build capacity and advance housing knowledge in Aboriginal communities.
- Facilitate homeownership on-reserve so that households can participate fully in the economic, social and cultural spheres of their communities.

Challenges Ahead

The issues and drivers in the upcoming planning period include:

- The Aboriginal population is growing at a faster rate than the overall population. In 2001, the Aboriginal population was close to one million or 22% higher than in 1996. This was much higher than the 3.4% growth rate for the non-Aboriginal population during the same period.
- Housing conditions in First Nations communities continue to lag behind conditions seen elsewhere in Canada. With limited new housing construction and a rapidly growing population, many on-reserve communities are faced with housing shortages and overcrowded conditions.
- Overcrowding, due to housing shortages on-reserve, is a factor behind deterioration of the housing stock and problem with mold.
- An impediment to market-based housing on-reserve is the lack of access to private-sector financing due to provisions in the *Indian Act*. Budget 2007 dedicated $300 million for the development of a First Nations Market Housing Fund to provide First Nations with the opportunity to obtain market-based housing loans from financial institutions for building, buying or renovating housing units on-reserve.
- A large portion of the northern population relies on assisted housing. Transportation challenges combined with a lack of skilled labour contribute to high construction costs and a slow pace of new construction. The harsh northern climate also increases the cost of ongoing maintenance and operation of electrical, heating and wastewater services in rural and remote areas.

In 2008, CMHC will:

- Continue to deliver the Non-Profit Housing Program and renovation programs on-reserve.
- Support the operationalization of the First Nations Market Housing Fund.
- Encourage adoption of market-based solutions where feasible and desired by First Nations, including improving access to private-sector financing and homeownership on-reserve.
- Support First Nations to improve and maintain the viability and quality of their housing stock through increased capacity to manage their housing and continuation of the Housing Quality Initiative.
- Building upon achievements in 2007, continue with the implementation of the National Mold Strategy on-reserve in partnership with Indian and Northern Affairs Canada, Health Canada and the Assembly of First Nations.
- Pursue research to improve living conditions of Aboriginal Canadians, primarily on-reserve.
- Commence construction of durable, energy efficient demonstration housing in Nunavut (Nunavut Northern Sustainable House) and support a demonstration and monitoring program for the Dawson House.

Financial Analysis – Housing Programs

Results Highlights ($M)	2006 Actual	2007 Plan	2007 Actual	Results Against Plan	2008 Plan
Housing Program[1] Expenses	2,049	1,930	**1,912**	99.1%	2,333
Operating Expenses	109	114	**108**	94.7%	115
Appropriations	2,158	2,044	**2,020**	98.8%	2,448

1 See Glossary

On an annual basis, the Corporation spends approximately $2 billion assisting Canadians in need. Of this total, approximately $1.7 billion (2006 – $1.8 billion) is related to long-term commitments made in prior years, with $1.1 billion (2006 – $977 million) of that amount transferred to provinces/territories under social housing agreements.

The 2008 plan figure is higher than previous years due to the $300 million for the creation of the First Nation Market Housing Fund.

Financial Analysis – Lending Activity

Results Highlights ($M)	2006 Actual	2007 Plan	2007 Actual	Results Against Plan	2008 Plan
Interest Income	865	819	**858**	104.7%	764
Interest Expense	858	799	**842**	105.4%	740
Operating Expenses	18	19	**17**	85.0%	24
Other	11	(6)	**(23)**	383.3%	(11)
Income Taxes	0	(1)	**(5)**	250.0%	(3)
Net Income (Loss)	0	(4)	**(19)**	475.0%	(8)
Reserve Fund	143	151	**121**	80.1%	133

The main source of income from CMHC's Lending Activity is interest earned on its loans program while the main expense is borrowing cost. As CMHC lends on a breakeven basis, net income is minimal in comparison to the overall performance.

The performance of the Lending Activity was negatively impacted by the ABCP write-down (approximately $7 million after tax) and the unplanned expensing of $5 million of holding costs for a property.

Section 29 of the *CMHC Act* provides for the establishment of a Reserve Fund by CMHC. The Reserve Fund constitutes the retained earnings of Lending Activity and fluctuates annually by the amount of income or loss recorded under Generally Accepted Accounting Principles (GAAP). Excesses over the limit are returned to the Government of Canada.

The Reserve Fund authorized limit is currently established at $175 million. A maximum of up to $125 million is intended to guard against losses arising from general operations and prepayment/repricing risk. The remaining $50 million is intended to accommodate fluctuations in earnings resulting from fair valuation adjustments of financial instruments.

RISK IN FOCUS

The primary risks of CMHC's lending relate to credit and market risk. Credit exposure, as measured by the carrying value of loans made by CMHC, which totalled $12.5 billion compared to $12.9 billion in 2006.

Given that CMHC lends to non-profit entities whose credit worthiness is difficult and often impossible to assess by third-party credit rating agencies, credit risk is mitigated in the following ways:

- **Approximately 24% of CMHC's loan portfolio is covered through the recovery of losses from the federal government so long as they are within CMHC's Parliamentary Appropriations;**
- **Approximately 24% of the portfolio is covered by CMHC's mortgage loan insurance and reserves have been set aside for claims that may result from these loans;**
- **Approximately 45% of the portfolio is covered under social housing agreements with the provinces and territories, making them responsible for loan losses; and**
- **Approximately 7% of the portfolio is covered by Indian and Northern Affairs Canada through Ministerial Loan Guarantees.**

CMHC has a process framework in place for management of loan default. When a loan goes into default, a feasibility analysis is performed to determine the value of the property and collateral.

OBJECTIVE TWO

FACILITATE ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING FOR ALL CANADIANS

Resources: $136 million in operating expenses and 808 staff years

Our Priority: Ensure Canadians Have Access to Mortgage Loan Insurance Products and Tools That Meet Their Needs

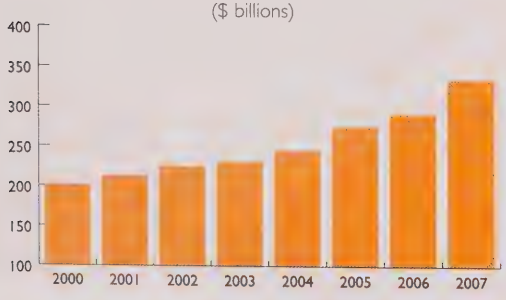
Performance vs. Plan

Performance Measures	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Mortgage loan insurance approved in units	631,191	603,061	**803,151**	578,539
% of total mortgage loan insurance units approved to address less served markets and/or support specific government priorities	34.2%[1]	33%	**36.9%**	33%
Operating expense ratio for mortgage loan insurance	9.8%	<10.3%	**10.7%**	<12.1%

1 The previously published result of 42.5% has been subsequently revised to 34.2%.

Insurance in force was $334 billion in 2007, compared to a target of close to $309 billion. This increase is principally due to higher portfolio volumes and to a lesser extent greater than planned rental and homeowner volumes. Under the *National Housing Act*, CMHC has a maximum aggregate outstanding amount of insured policies in force that cannot be exceeded. In March 2008, Parliament approved a $100 billion increase to this ceiling, raising the outstanding insurance in force limit from $350 billion to $450 billion in order to provide sufficient capacity to continue to meet market demand for CMHC mortgage loan insurance.

Insurance in Force
($ billions)



CMHC's commitment to innovation has led to a suite of new mortgage loan insurance products that meet the evolving needs of our clients and mortgage consumers. As the housing market continues to evolve, so does the public's appetite for new MLI products. In 2007, CMHC rose to the challenge and introduced products that provided flexibility and choice to Canadians.

CMHC continued to underwrite mortgage loan insurance applications in all parts of the country in such a manner that enabled Canadians to access financing in a responsible fashion.

CMHC fell just short of its operating expense ratio target as a result of a greater than planned focus on marketing initiatives targeted at maintaining CMHC's market position in an increasingly competitive market.

37% of mortgage loan insurance approvals are in markets where Canadians are not served or are less well served by private mortgage loan insurers, including:

- Housing in rural areas
- Housing on-reserve
- Housing in the North and Territories
- Rental housing, including nursing and retirement homes
- Homes secured through a chattel mortgage
- Homes in single-industry towns
- Non-profit and co-operative housing projects

Our activities are intended to achieve these

- Address gaps in the housing finance system served populations, such as Aboriginal peoples, immigrants and low-income households, can access housing finance at the lowest possible cost. Create equal access to insurance, and therefore homeownership geographic location
- Contribute to the financial security of Canadian hou through homeownership, which is a key foundation o consumer confidence, household spending
- Create economic growth through healthy demand housing, which stimulates activity in the new constructio renovation industries. The associated expenditures gene ripple effects throughout the economy, creati business opportunities in communities across the co
- Portfolio insurance helps lenders manage their capital n efficiently and small lenders to compete with large lenders. It allows more le mortgage loan insurance market by lowering thus expanding consumer choice

Financial Analysis – Insurance

Results Highlights ($M)	2006 Actual	2007 Plan	2007 Actual	Results Against Plan	2008 Plan
Premium and Fees Revenue	1,183	1,289	1,355		
Investment Income	674	425	633	148	
Realized Gain/Losses on Disposal of Investments and Fair Value Adjustments	0	68	93	136	
Other Income	1	0	(7)	N	
Operating Expenses	6	133	145		
Interest Expense	16	9	110		
Net Claims	209	181	315		
Income Taxes	436	477	482		
Net Income	981	99	1,022		
Other Comprehensive Income	N/A	61	(187)	(306	
Comprehensive Income	N/A	1,052	835		

Revenues from mortgage insurance activity are comprised of insurance premiums, application fees (rental loans only) and income earned on its investment portfolio. Premiums and fees are received at the inception of the mortgage insurance policy. They are recognized as revenue over the period covered by the insurance contract using actuarially determined factors that reflect the long-term pattern for default risk. These factors are reviewed annually by the external actuary. In 2007, this review led to a change to the earnings curve to better reflect the claim occurrence experience and resulted in an additional $112 million being recognized in revenue in 2007. Since CMHC is mandated to operate its mortgage insurance business on a commercial basis, the premiums and fees it collects and the interest it earns must cover related claims and other expenses. They must also provide a reasonable rate of return to the Government of Canada, ensuring a fair level playing field with private-sector mortgage insurers. As such, CMHC insurance activity is operated at no cost to Canadian taxpayers.

A combination of strong house prices and initiation volumes supported by CMHC's commitment to developing new and innovative products, client services and operational excellence kept premium receipt levels high again in 2007.

Overall, current year mortgage loan insurance revenues do not fluctuate much in response to short-term volumes as a substantial portion of the insurance premium revenues in any given year are attributable to premiums received in prior years.

Short-term changes in economic conditions affect the two components of net claims expense: the actual loss on claims paid during the year and the change in the provisions for claims that have already occurred but for which claims have yet to be filed. The provision for claims is an estimate based upon historical experience and projections of future economic conditions as well as prevailing legal, economic, social and regulatory trends, and expectations as to future developments. It is evaluated annually by an external actuary, who reviews historical experience to determine if changes are required to assumptions regarding expected claim outcomes and the impact of future economic conditions. The 2007 Valuation revised claim occurrence factors. This implied a higher current provision for claims. The 2007 Valuation also identified some adverse trends in some large metropolitan areas where average claim amounts are higher. This also implied a higher provision for claims. The actual loss on claims paid during the year was consistent with our 2007 plan.

Net Income has remained fairly stable over the last three years and the Corporation is expecting a slight increase in 2008. This is mainly due to the impact of previous year's business and the continued increase in the size of the investment portfolio. Regulations, competition, and change in default patterns may affect results. CMHC continues to enhance and introduce new flexibilities to our insurance products.

INSURANCE RETAINED EARNINGS

- CMHC voluntarily follows capitalization guidelines issued by the Office of the Superintendent of Financial Institutions.
- Fully capitalized since 2005.
- Use of Retained Earnings other than for capitalization and retention subject to Government directive.



RISK IN FOCUS

Key to managing CMHC homeowner-related mortgage loan insurance risk is the maintenance of an automated underwriting system, **emili**, which incorporates borrower, market, and property risk assessment models. **emili** is routinely monitored and updated based on actual claims experience.

A similar model is used to manage risk in its portfolio, or bulk, insurance products. CMHC also actively manages rental-related mortgage loan insurance risk through detailed and thorough underwriting, including analysis and risk assessment of the borrower, market, property and loan characteristics. A standardized risking tool is employed by underwriters to assign a risk rating to each of these major risk components. Based upon the risk rating and complexity of the loan application, risk-mitigating actions are taken to ensure the risk is at an acceptable level.

Because CMHC operates across Canada, the mortgage insurance portfolio is geographically distributed. Difficult economic times, which are the major factor in credit losses, have historically demonstrated that they are also geographically distributed and changing over time. CMHC also manages mortgage insurance risk by working with mortgage lenders to maintain quality standards in the underwriting and servicing of their mortgage portfolios.

The risk of financial loss is represented by the amount of future mortgage loan insurance claims relative to the mortgage insurance premiums received. The overall performance of the economy is the main determinant of future claims patterns. Changes in house price levels, mortgage rates and unemployment levels, nationally and regionally, are key economic variables affecting claims. CMHC uses a dynamic financial analysis model to assess the sensitivity of mortgage loan insurance under various recession, unemployment and interest-rate assumptions, as well as under different business conditions such as a reduction in market share or worse-than-expected product performance.

The objective of the MLI investment portfolio is to maximize returns while maintaining sufficient liquidity to meet projected business requirements, including potential future claims and other liabilities. The value of the portfolio on December 31, 2007 was $12.1 billion, a year-over-year increase of 12% or $1.3 billion. The portfolio is subject to market risk. To minimize this risk, the majority of investments are held in high quality, fixed income products.

MLI Investment Portfolio Mix

Investment %	Strategic Allocation Plan	Actual Allocation
Fixed Income	78.0	77.6
Money Market	5.0	3.8
Canadian Equity	10.0	10.6
Europe, Australasia, and Far East (Equity)	3.5	4.2
U.S. Equity	3.5	3.8
Total	100.0	100.0

Challenges Ahead

The issues and drivers in the upcoming planning period include:

- Housing starts increased slightly to 228,343 units during 2007. Starts are expected to decrease to about 211,700 units in 2008, due to rising mortgage carrying costs. However, underlying economic fundamentals will continue to be a solid underpinning for Canada's housing sector.
- U.S.-based mortgage loan insurance providers are increasingly interested in Canada. The federal government has increased the amount of private mortgage loan insurance that can be covered under the federal guarantee from $100 billion to $200 billion in 2006. In 2007, two new U.S. insurers were approved to do business in Canada (however one has since retracted their entry), and one additional U.S. insurer applied to enter, bringing the potential number of active competitors to four. It is expected that there will be one new competitor in 2008.
- In April 2007, Bill C-37 raised the loan-to-value ratio threshold for mortgage loan insurance for federally-regulated lenders from 75% to 80%, therefore reducing the size of the mortgage loan insurance market relative to the overall mortgage market.
- Under Basel II, the risk weight of uninsured mortgages will decline by 30%. As a result, mortgage loan insurance, as a tool to reduce lenders' minimum capital requirements, will be less valuable.

In 2008, CMHC will:

- Continue to provide mortgage loan insurance products and services in all parts of Canada.
- Focus efforts on better serving the needs of financial institutions and Canadians in general, including relatively underserved borrower populations.
- Promote awareness and understanding of the public policy benefits of mortgage loan insurance and of CMHC's role in the Canadian housing finance system.
- Maintain industry leadership in combating mortgage fraud by continuing to raise awareness and understanding with lender clients.
- Continue to identify new opportunities that may exist through the provision of specialized products and the development of new tools and technologies.
- Continue to assess the effect of the changing regulatory environment on CMHC's mortgage loan insurance business.
- Review CMHC default management tools, with a view to expanding the options available to assist Canadians in financial difficulty to stay in their homes.

Our Priority: Enhance the Supply of Low-Cost Funds for Mortgage Lending by Expanding the Securitization Program

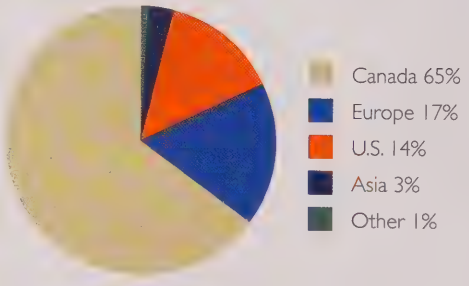
Performance vs. Plan

Performance Measures	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Annual securities guaranteed (million $)	36,071	30,500	57,981	40,000
Operating expense ratio for securitization	6.6%	<11.7%	5.8%	<11%

CMHC's mortgage securitization programs have benefited from robust housing markets and lender appetite for lower-funding costs in recent years. As a result, guarantees in force have grown from $34 billion in 2001 to $165 billion in 2007. There is still room to grow however as only 19% of residential mortgages are securitized. CMHC's guarantee in force is subject to a statutory limit of $350 billion. This limit will be increased by $100 billion in 2008.

The crisis in the ABCP market has helped to further demonstrate the key role CMHC plays in providing low-cost residential mortgage funding to lenders. In need of access to low-cost funding, many of these institutions turned to CMHC's mortgage securitization programs as a much-needed source of liquidity to fund their mortgages.

Original CMB Distribution by Region
(2001–2007)



The success of CMB has resulted in continued growth in the number of outstanding bonds and clearly demonstrates the extent to which the mortgage industry has embraced this innovative mortgage-funding vehicle. In 2007, a total of $35.7 billion issued by the Canada Housing Trust was guaranteed by CMHC, compared to $25 billion in 2006.

An evaluation of the CMB Program was performed in 2007 to assess the effectiveness of the program during its first five years in achieving its objectives of improving the competitiveness of the mortgage sector and helping ensure Canadians have access to affordable mortgage financing. It is expected that the evaluation will be finalized in spring 2008.

Our activities are intended to achieve these outcomes:

- Integrate mortgage market lending with capita lending, therefore leading to greater efficiency and lower for lenders. Expand the base for funding of mortgage loans and allow for more efficient pricing.

Financial Analysis – Securitization and Canada Housing Trust

Results Highlights ($M)	2006 Actual	2007 Plan	2007 Actual	Results Against Plan	2008 Plan
CHT					
Revenue	3,498	3,459	**4,839**	139.9%	4,414
Expense	3,498	3,459	**4,839**	139.9%	4,414
Securitization					
Fee Revenue	49	57	**65**	114.0%	
Interest Income	19	18	**24**	133.3%	
Operating Expenses	3	7	**4**	57	
Income Taxes	20	22	**27**	122.7%	
Net Income	45	46	**58**		
Other Comprehensive Income	N/A	4	**(7)**	(175.0	
Comprehensive Income	N/A	50	**51**	102.0%	

CHT 2007 revenues were positively impacted by issuance of CMB and investment in NHA MBS. CHT's main source of revenue is income from the investments it holds and its main expense is interest on outstanding CMB. The higher than expected CMB volumes have resulted in higher than planned revenues and expenses.

Revenue growth in recent years has also reflected the introduction of additional eligible mortgage products into the CMB Program and the growing interest from additional financial institutions looking to CMB as a low-cost residential mortgage funding alternative.

Interest expense is by far the largest portion of CHT expense. This is directly related to the total amount of outstanding C The total amount of CMB outstanding at the end approximately $119 billion

In 2007, net income from securitization was $58 n than planned, driven by higher activity, resulting in higher guar earning income. Guarante related security issue and recognized as i the security issue. t 85% of the 20

RISK IN FOCUS

For NHA MBS, the risk associated with issuer default is mitigated by both quality assessment and monitoring of the issuers and by a minimum spread requirement between the NHA MBS coupon and the lowest mortgage rate in the pool and the requirement that all securitized mortgages must be insured. In the event of issuer default, the minimum spread can be made available to a third-party for the continued servicing of both underlying mortgages and the NHA MBS payments.

For CMB, the risk associated with swap counterparty default is mitigated through program requirements for collateralization in the event of counterparty credit ratings below specific ratings thresholds and the requirement that all amortizing or prepaying principal must be reinvested in additional NHA MBS, Government of Canada securities or a limited amount of Canadian residential asset-backed securities that meet specific requirements including an R-1 (High) rating.

The objective of the securitization investment portfolio is to maximize returns while maintaining sufficient liquidity to meet projected business requirements. The value of the securitization investment portfolio at year-end 2007 was $538 million, an increase of 27% or $115 million from 2006. The portfolio is also subject to market risk. To mitigate this risk, the majority of the securitization assets are invested in high quality, fixed income investments.

Securitization Investment Portfolio Mix

Investment %	Strategic Allocation Plan	Actual Allocation
Fixed Income	78.0	77.6
Money Market	5.0	3.8
Canadian Equity	10.0	10.6
Europe, Australasia, and Far East (Equity)	3.5	4.2
U.S. Equity	3.5	3.8
Total	100.0	100.0

Challenges Ahead

The issues and drivers in the upcoming planning period include:

- The residential mortgage market in Canada is quickly evolving as a result of the entry of foreign financial institutions and the growth of smaller unregulated Canadian start-ups. While these changes are increasing the level of competition in the mortgage market, these new entrants present challenges to CMHC to evolve our securitization programs in order to facilitate participation by these non-traditional lenders.
- Recent events in the global credit markets are also presenting challenges to CMHC as demand for funding by lenders through programs such as the CMB Program is exceeding the demand from investors for CMHC guaranteed CMBs.
- On June 27, 2007 the Office of the Superintendent of Financial Institutions announced that it would permit deposit-taking institutions to resume issuing covered bonds on a limited basis. Covered bonds, which are debt obligations secured by the assets of the issuer or of any of its subsidiaries, improve funding diversification and lower costs relative to other funding approaches, but are still more costly than CMBs.

In 2008, CMHC will:

- Continue to deliver securitization products and services to ensure an adequate supply of low-cost mortgage financing.
- Develop alternative CMB funding strategies, which may include different term structures and/or currencies.
- Expand the list of mortgage products eligible for securitization.
- Complete the implementation of the recommendations regarding the expansion of the list of eligible replacement assets for the CMB Program.

Our Priority: Provide Comprehensive, Timely and Relevant Information to Enable Canadian Consumers and the Housing Sector to Make Informed Decisions

Performance vs. Plan

Performance Measures	2006 Actual	2007 Plan	2007 Actual	2008 Plan
% of subscribers to market analysis publications who found them useful	94%	>94%	**93%**	>94
% of attendees at Housing Outlook Conferences who found them useful	99.7%	95%	**99.1%**	9
Forecast accuracy for housing starts	-8.9%	Within 10% of actual	**-7.6%**	Within of a
Ranking of housing starts forecast accuracy among forecasters	4th amongst 18	Rank within the top quartile	**2nd amongst 19**	Rank withir the quartile
% of information transfer seminar attendees who found them useful	94%	95%	**95%**	95%
% of recipients of newly published Research Highlights who found them useful	68%	70%	**71%**	70%
% of recipients of newly published About your House fact sheets who found them useful	83%	80%	**80%**	80%

In 2007, CMHC introduced a number of enhancements to its Market Analysis products and surveys in order to offer more comprehensive and timely information on the housing sector, including expanded coverage of the renovation and rental markets.

CMHC's Housing Outlook Conferences and Seminars were attended in record numbers across Canada, with more than 5,500 people attending the 19 highly regarded industry events which were held in 2007. As well, over 30,000 people attended presentations made by CMHC market analysts at a wide range of housing events across the country.

The evaluation of CMHC's market analysis activities found that stakeholders across a broad segment of the housing sector were not only highly aware of CMHC market analysis products and services, but relied heavily upon our publications in supporting their decisions. Housing starts data and forecasts were rated the most useful items.

In October 2007, the fifth edition of the Canadian Housing Observer was released. This CMHC flagship publication assesses the state of Canada's housing through the lenses of sustainability, financing, demographics, socio-economic influences on housing demand, recent trends in affordable housing and current market developments. In addition, the 2007 Canadian Housing Observer, for the first time, discusses housing need and conditions in the nation's urban centres based on the annual Statistics Canada Survey of Labour and Income Dynamics. By December 31, 200 2,500 English and 2,300 French print copies of the publicat were distributed.

The Canadian Housing Observer is complemented by extensive online data tables via Housing in Canada Online (HiCO). The data tables provide an overview of housing conditions and trends Canada and in each province/territory and Census Metropolit Area. HiCO is an interactive tool for building customized t and analyzing data on housing conditions. In August 2007, data off-reserve Aboriginal housing conditions, derived from the and 2001 Censuses was added, allowing for the comparisor Aboriginal and non-Aboriginal housing conditions

In 2007, CMHC undertook initiatives to improve the way we communicate with Canadians. Messaging was developed for several of CMHC's key business areas and initiatives including mortgage loan insurance, the Affordable Housing Centre, and the launch of the EQuilibrium Healthy Housing Initiative.

Major advertising campaigns proactively engaged Canadians via web-based marketing, complemented with radio, television, and digital display advertising. Over the course of the year, CMHC's Web site received a record 6.9 million visits and consumer awareness of CMHC as Canada's national housing agency reached a record level of 82%.

Our activities are intended to achieve these outcomes:

- Contribute to economic growth and efficiency.
- Help ensure a balance of supply and demand in the housing market.
- Facilitate adoption of best building practices by consumers and the housing and housing finance industry.

Challenges Ahead

The issues and drivers in the upcoming planning period include:

- Recent developments requiring attention include continued house-price appreciation and reduced affordability, the growing importance of the secondary rental market, entry of new mortgage industry players, new finance and insurance products, new financial regulations, and growing resolve to address northern and Aboriginal on-reserve housing conditions.
- Consumer and industry expectations, as well as government agendas, are also dynamic, with recent focus on the environment, sustainability, and health.

In 2008, CMHC will:

- Continue to provide information that is comprehensive, timely and relevant to the needs of the industry and stakeholders.
- Implement recommendations regarding the conduct of a national retirement homes survey.
- Conclude the feasibility of conducting a national new home sales survey.

OBJECTIVE THREE

ENSURE THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD

Resources: $102 million in operating expenses and 717 staff years

Our Priority: Promote Sustainable Housing and Communities

In 2007, CMHC continued to promote a vision for environmentally sustainable housing through ongoing research and information transfer activities. Progress on the EQuilibrium Healthy Housing Initiative resulted in twelve winning projects being selected to demonstrate the design and construction of the next generation of sustainable housing in Canada. One project, ÉcoTerra™ in Eastman, Quebec, has been completed and was opened to the public in November 2007. Six additional projects have entered the construction phase of development.

Promotion of sustainable community planning practices resulted in the following projects: Old North End Neighbourhood in Saint John, Saddleton Fused Grid in Calgary, Perthworks in Perth, and Saline Creek Plateau Neighbourhood Structure Plan in Fort McMurray.

CMHC fulfilled its responsibilities with respect to the management and administration of Granville Island, including work towards a long-term plan to undertake infrastructure improvements.

Our activities are intended to achieve these key outcomes:

- Facilitate the adoption of sustainable practices by the housing industry and consumers, thereby helping to address climate change from the housing perspective, leading to reductions in greenhouse gas emissions and the preservation of the environment and quality of life.
- Improve the environmental sustainability of housing and communities through adoption of sustainable practices, therefore leading to the development of new, sustainable communities, as well as intensification of existing residential neighbourhoods and brownfield development.
- Improve the energy efficiency of new and existing housing, therefore reducing greenhouse gas emissions attributable to the residential sector.

Challenges Ahead

The issues and drivers in the upcoming planning period include

- Budget 2007 commits significant resources to reducing greenhouse gases and combating climate change through cleaner energy, increased energy efficiency, and cleaner transportation. Residential energy use, which accounts for 15.2% of the country's greenhouse gas emissions, is a major source of emissions.
- Faced with the challenge of accommodating growth in a sustainable way, planners are turning to development principles such as "new urbanism" and "new pedestrianism"
- Five factors – energy prices, the age of Canada's housing stock, health considerations, government incentives and consumer awareness of environmental issues – will shift Canadian preferences towards housing solutions that are healthy, energy-efficient, durable, and environmentally friendly
- In responding to rising consumer demand, government policies and incentive programs, and increased industry competition, home-builders are increasingly embracing green features and energy-efficient housing technologies
- International demand for sustainable housing and community technologies and practices is clearly rising. This would lead to increasingly sustainable communities. Countries committed to meeting Kyoto targets, or targets which may arise from future climate change agreements, will increasingly seek technologies designed of encourage and promote energy efficiency as a way of reducing greenhouse gas emissions

In 2008, CMHC will:

- Support the federal government's environmental plan as it relates to housing, with a view to ensuring that CMHC's strategies are well-aligned with federal objectives, and to continuing its work with Health Canada and Natural Resources Canada – the lead agencies responsible for implementing measures in support of the indoor-air component of the government's Clean Air agenda.
- Promote environmental sustainability that supports the current climate change agenda by illustrating practical actions and results (e.g., EQuilibrium Healthy Housing Initiative).
- Examine how CMHC's EQuilibrium Healthy Housing Initiative can be extended to the neighbourhood or community scale.
- Explore how housing finance tools can be used to enhance environmental sustainability.
- Initiate policy research to examine innovative sustainable housing financing mechanisms and models in Canada, and internationally, to evaluate their applicability to Canada in support of sustainable housing and communities.

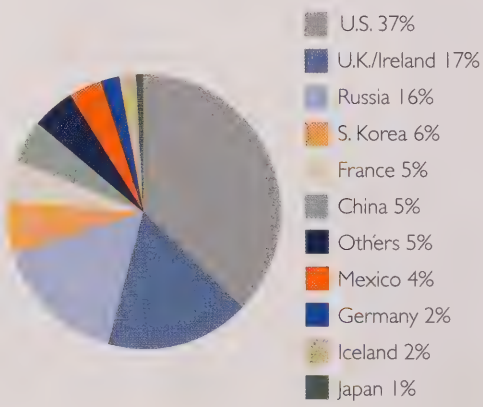
Our Priority: Support and Promote Canada's World-Class Housing Products, Services and Systems Internationally

Performance vs. Plan

Performance Measures	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Revenues from selling CMHC's expertise abroad (millions $)	1.86	1.95	**2.17**	2.54
Overall satisfaction rate of key clients	82%	75%	**92%**	75%
Value of CMHC-facilitated sales reported by key export clients (millions $)	79.3	92.8	**105.8**	120.0

The most significant events impacting Canadian housing exports to the U.S. were the rise of the Canadian dollar from above $0.60 U.S. to at or above par and the impact of subprime mortgage lending on the housing market and the economy. In response to these challenges, CMHC successfully implemented the U.S. Platinum Program for Canadian exporters in 2007.

CMHC-Facilitated Sales by Market
(2007)



CMHC-facilitated sales of $105.83 million in 2007, which is 12% above plan. This led to the creation or maintenance of more than 1,164 jobs for Canadians.



In 2007, CMHC continued to sell its expertise abroad, generating revenues of $2.17 million.

Our activities are intended to achieve these key outcomes:

- Help Canadian exporters diversify their export markets and operate in an increasingly competitive international marketplace.
- Improve the performance of housing finance institutions abroad and enable market-based reforms to enhance housing affordability and housing choice.
- Further Canada's foreign policy objectives through the development of better functioning housing markets abroad, thereby contributing to the broader objectives of citizen involvement, social stability and economic prosperity.

Challenges Ahead

The issues and drivers in the upcoming planning period include:

- There are considerable opportunities for CMHC to share its experience and expertise in housing.
- A stronger Canadian dollar over the medium- to long-term will pressure exporters to trim their underlying costs in order to remain competitive.
- The global marketplace is increasingly aware of housing solutions from around the world and the benefits that a well-functioning housing sector provides to the economy and society.

In 2008, CMHC will:

- Continue to develop housing markets internationally by selling its expertise abroad as well as by helping Canadian exporters to diversify their export markets and operate in an increasingly competitive environment.
- Support key Canadian clients in the provision of environmentally-sound systems and products related to housing, with a view to enabling CMHC to learn about international market opportunities in green building products, identify opportunities for Canadian companies and support the companies to help them meet international requirements and standards.
- Explore the provision of Canadian products and services in the development of new sustainable communities in various markets, including implementation of memoranda of understanding with Mexico, Russia and China and seek new international opportunities.
- Assist the forestry industry in accessing new export markets with housing-related products, with a view to developing a strategy to support clients in the forestry industry who are willing to increase the value-added of their products.
- Implement a strategy for facilitating high-rise projects in various markets where demand and interest is strong, with a view to appraising Canadian export capability, by identifying potential exporters and helping them identify international high-rise housing projects.
- Support the Government of Canada international trade and foreign affairs objectives by signing new consulting contracts in select countries seeking to develop or improve their housing finance products or strategies, with a view to promoting and supporting Canada's housing system internationally.
- Increase opportunities for Super E® technology in U.K. social housing. Social housing landlords understand the long-term benefits of Super E® and are willing to absorb the initial costs for significant savings over time. There is also a need for a concerted effort for matchmaking between Canadian exporters with the U.K. social housing sector.


BUILDING ON INNOVATION

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

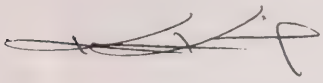
Year ended 31 December 2007

CMHC management is responsible for the integrity and objectivity of the consolidated financial statements and related financial information presented in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and, consequently, include amounts which are based on the best estimates and judgement of management. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

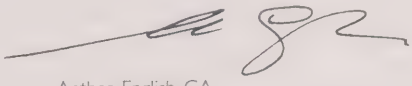
In carrying out its responsibilities, management maintains appropriate financial systems and related internal controls within CMHC, and controls as guarantor of Canada Housing Trust, to provide reasonable assurance that financial information is reliable, assets are safeguarded, transactions are properly authorized and are in accordance with the relevant legislation and by-laws of the Corporation, resources are managed efficiently and economically, and operations are carried out effectively. The system of internal controls is supported by internal audit, which conducts periodic audits of different aspects of the operations.

The Board of Directors, acting through the Audit Committee whose members are not officers of the Corporation, oversees management's responsibilities for financial reporting, internal control systems, and the controls as guarantor of Canada Housing Trust. The Board of Directors, upon the recommendation of the Audit Committee, has approved the consolidated financial statements.

Ernst & Young LLP, and Sheila Fraser, FCA, Auditor General of Canada, have audited the consolidated financial statements. The auditors have full access to, and meet periodically with, the Audit Committee to discuss their audit and related matters.



Karen Kinsley, CA
President and Chief Executive Officer



Anthea English, CA
Vice-President, Corporate Services and
Chief Financial Officer

15 February 2008



Auditor General of Canada
Vérificatrice générale du Canada

ERNST & YOUNG

AUDITORS' REPORT
TO THE MINISTER OF HUMAN RESOURCES AND SOCIAL DEVELOPMENT

We have audited the consolidated balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2007 and the consolidated statements of income and comprehensive income, equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for financial instruments as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act,* the *National Housing Act* and the by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
15 February 2008

CONSOLIDATED BALANCE SHEET

As at 31 December

(in millions of dollars)	Notes	Consolidated 2007	Consolidated 2006	CMHC 2007	CMHC 2006	CHT 2007	CHT 2006
ASSETS							
Investment in NHA Mortgage-Backed Securities	3, 4	**96,023**	76,599	–	–	**96,023**	76,599
Securities Purchased Under Resale Agreements	14	**21,373**	11,290	**1,340**	423	**20,033**	10,867
Investment Securities:	3, 4	–	12,942	–	10,856	–	2,902
Designated at Fair Value		**2,086**	–	**980**	–	**1,106**	
Available for Sale		**10,723**	–	**12,102**	–	–	
Held to Maturity		**69**	–	**69**	–	–	
Loans and Investments in Housing Programs:	3, 5	–	12,706	–	12,706	–	
Loans Designated at Fair Value		**7,644**	–	**7,644**	–	–	
Other Loans		**3,624**	–	**3,624**	–	–	
Investments in Housing Programs		**1,073**	–	**1,073**	–	–	
Cash and Cash Equivalents	20	**3,470**	8,453	**1,476**	3,300	**1,995**	5,153
Accrued Interest Receivable		**747**	1,260	**404**	346	**352**	924
Derivatives	3, 13	**645**	83	**32**	83	**613**	
Accounts Receivable and Other Assets	3	**427**	446	**424**	446	–	
Due from the Government of Canada		**188**	217	**188**	217	–	
Future Income Tax Assets	3, 6	–	140	–	140	–	
Inventory of Real Estate		**76**	82	**76**	82	–	
		148,168	124,218	**29,432**	28,599	**120,122**	96,445
LIABILITIES							
Canada Mortgage Bonds	3, 7	**117,719**	94,667	–	–	**119,098**	95,483
Capital Market Borrowings	3, 7	**8,295**	8,625	**8,296**	8,625	–	
Unearned Premiums and Fees		**5,386**	4,934	**5,386**	4,934	–	
Borrowings from the Government of Canada	7	**4,446**	4,701	**4,446**	4,701	–	
Securities Sold But Not Yet Purchased		**1,335**	379	**1,335**	379	–	
Securities Sold Under Repurchase Agreements	3	**1,049**	2,868	**1,049**	2,868	–	
Accrued Interest Payable		**1,018**	1,230	**199**	279	**828**	
Derivatives	3, 13	**903**	9	**707**	9	**196**	
Provision for Claims	9	**552**	454	**552**	454	–	
Accounts Payable and Other Liabilities	8	**376**	897	**376**	896	–	
Future Income Tax Liabilities	3, 6	**95**	–	**95**	–	–	–
		141,174	118,764	**22,441**	23,145	**120,122**	96,445
Commitments and Contingent Liabilities	21						
EQUITY OF CANADA							
Contributed Capital		**25**	25	**25**	25	–	
Accumulated Other Comprehensive Income	3	**328**	–	**340**	–	–	
Retained Earnings	3, 11	**6,641**	5,429	**6,626**	5,429	–	
		6,994	5,454	**6,991**	5,454	–	
		148,168	124,218	**29,432**	28,599	**120,122**	96,445

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

Dino Chiesa
Chairperson, Board of Directors

Sophie Joncas, CA
Chairperson, Audit Committee

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year ended 31 December

(in millions of dollars)	Notes	Consolidated 2007	Consolidated 2006	Consolidated 2005	CMHC 2007	CMHC 2006	CMHC 2005	CHT 2007	CHT 2006	CHT 2005
REVENUES										
Interest Income from NHA Mortgage-Backed Securities		**3,793**	2,860	2,458	–	–	–	**3,793**	2,860	2,458
Premiums and Fees		**1,421**	1,234	1,224	**1,421**	1,234	1,224	–	–	–
Interest Income from Investment Securities		**1,616**	1,272	729	**756**	759	604	**906**	539	144
Interest Earned on Loans and Investments in Housing Programs	12	**756**	799	864	**756**	799	864	–	–	–
Gains (Losses) from Financial Instruments Designated at Fair Value	3	**(7)**	–	–	**(16)**	–	–	–	–	–
Realized Gains (Losses) from Available for Sale Financial Instruments	3	**92**	–	–	**92**	–	–	–	–	–
Other Income		**55**	55	58	**(11)**	10	24	**140**	99	73
		7,726	6,220	5,333	**2,998**	2,802	2,716	**4,839**	3,498	2,675
Parliamentary Appropriations for:	12									
Housing Programs		**1,912**	2,049	1,973	**1,912**	2,049	1,973	–	–	–
Operating Expenses		**108**	109	103	**108**	109	103	–	–	–
		2,020	2,158	2,076	**2,020**	2,158	2,076	–	–	–
		9,746	8,378	7,409	**5,018**	4,960	4,792	**4,839**	3,498	2,675
EXPENSES										
Interest Expense	7	**5,598**	4,340	3,550	**952**	974	973	**4,692**	3,392	2,596
Housing Programs	12	**1,912**	2,049	1,973	**1,912**	2,049	1,973	–	–	–
Operating Expenses		**347**	298	303	**274**	246	263	**147**	106	79
Net Claims		**315**	209	119	**315**	209	119	–	–	–
		8,172	6,896	5,945	**3,453**	3,478	3,328	**4,839**	3,498	2,675
INCOME BEFORE INCOME TAXES		**1,574**	1,482	1,464	**1,565**	1,482	1,464	–	–	–
INCOME TAXES	6									
Current		**500**	468	493	**500**	468	493	–	–	–
Future		**4**	(12)	(31)	**4**	(12)	(31)	–	–	–
		504	456	462	**504**	456	462	–	–	–
NET INCOME		**1,070**	1,026	1,002	**1,061**	1,026	1,002	–	–	–
OTHER COMPREHENSIVE INCOME (net of tax)	3, 6									
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments		**(145)**	–	–	**(141)**	–	–	–	–	–
Reclassification Adjustment for Net (Gains) Losses Included in Net Income		**(55)**	–	–	**(53)**	–	–	–	–	–
		(200)	–	–	**(194)**	–	–	–	–	–
COMPREHENSIVE INCOME		**870**	–	–	**867**	–	–	–	–	–

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

Year ended 31 December

(in millions of dollars)	Notes	2007	2006	2005
Contributed Capital		25	25	25
Retained Earnings	11			
Unappropriated				
Balance at Beginning of Year		1,555	854	155
Effect of Adopting New Accounting Standards for Financial Instruments	3	135	–	–
Income Tax Benefit on Earnings Set Aside for Capitalization		4		
Net Income		1,080	1,026	993
Set Aside for Capitalization		(527)	(325)	(294)
Balance at End of Year		2,247	1,555	854
Earnings Set Aside for Capitalization				
Balance at Beginning of Year		3,731	3,406	3,112
Set Aside for Capitalization		527	325	294
Balance at End of Year		4,258	3,731	3,406
Reserve for Lending				
Balance at Beginning of Year		143	143	24
Effect of Adopting New Accounting Standards for Financial Instruments	3	(3)	–	
Net Income (Loss)		(19)		9
Balance at End of Year		121	143	143
Total Retained Earnings at End of Year		6,626	5,429	4,403
Accumulated Other Comprehensive Income				
Balance at Beginning of Year		–		
Effect of Adopting New Accounting Standards for Financial Instruments	3	534	–	–
Other Comprehensive Income		(194)	–	–
Total Accumulated Other Comprehensive Income at End of Year		340	–	–
Total Retained Earnings and Accumulated Other Comprehensive Income		6,966	5,429	4,403
Inter-entity Elimination		3	–	
Total Equity of Canada at End of Year		6,994	5,454	4,428

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December

(in millions of dollars)	Consolidated 2007	Consolidated 2006	Consolidated 2005	CMHC 2007	CMHC 2006	CMHC 2005	CHT 2007	CHT 2006	CHT 2005
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Net Income	**1,070**	1,026	1,002	**1,061**	1,026	1,002	**–**	–	–
Items Not Affecting Cash or Cash Equivalents									
Amortization of Premiums and Discounts	**254**	(123)	(30)	**13**	11	32	**241**	(134)	(62)
Future Income Taxes	**(4)**	3	(31)	**(4)**	3	(31)	**–**	–	–
Change in Fair Value of Financial Instruments	**49**	(75)	(57)	**49**	(75)	(57)	**–**	–	–
Gain on Sale of Investment Securities	**(94)**	(39)	(54)	**(94)**	(39)	(54)	**–**	–	–
Net Change in Non-cash Operating Assets and Liabilities	**18**	26	364	**465**	1	356	**(438)**	25	8
	1,293	818	1,194	**1,490**	927	1,248	**(197)**	(109)	(54)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES									
Investment in NHA Mortgage-Backed Securities									
Sales and Maturities	**28,902**	23,496	15,406	**–**	–	–	**28,902**	23,496	15,406
Purchases	**(47,645)**	(36,015)	(27,901)	**–**	–	–	**(47,645)**	(36,015)	(27,901)
Change in AFS, HTM and Designated at Fair Value Investment Securities									
Proceeds from Sales and Maturities	**20,242**	17,385	12,124	**9,768**	10,275	12,076	**10,474**	7,110	48
Purchases	**(19,006)**	(18,378)	(13,771)	**(11,283)**	(11,025)	(13,309)	**(8,680)**	(8,349)	(1,041)
Reclassification of ABCP from Cash Equivalents	**(249)**	–	–	**(249)**	–	–	**–**	–	–
Change in Loans and Investments in Housing Programs									
Repayments	**829**	745	706	**829**	745	706	**–**	–	–
Disbursements	**(395)**	(281)	(211)	**(395)**	(281)	(211)	**–**	–	–
Change in Securities Purchased Under Resale Agreements	**(10,083)**	(7,250)	(3,464)	**(917)**	(311)	464	**(9,166)**	(6,939)	(3,928)
	(27,405)	(20,298)	(17,111)	**(2,247)**	(597)	(274)	**(26,115)**	(20,697)	(17,416)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES									
Canada Mortgage Bonds									
Issuances	**34,797**	24,155	17,476	**–**	–	–	**35,754**	25,151	18,055
Repayments	**(12,600)**	(2,200)	–	**–**	–	–	**(12,600)**	(2,200)	–
Medium-term Capital Market Borrowings									
Issuances	**274**	1,342	2,161	**274**	1,342	2,161	**–**	–	–
Repayments	**(1,300)**	(1,450)	(2,336)	**(1,300)**	(1,450)	(2,336)	**–**	–	–
Change in Short-term Capital Market Borrowings	**1,108**	(783)	415	**1,108**	(783)	415	**–**	–	–
Repayments of Borrowings from the Government of Canada	**(255)**	(198)	(146)	**(255)**	(198)	(146)	**–**	–	–
Change in Securities Sold Under Repurchase Agreements	**(1,819)**	(176)	68	**(1,819)**	(176)	68	**–**	–	–
Change in Securities Sold But Not Yet Purchased	**925**	268	(10)	**925**	268	(10)	**–**	–	–
	21,130	20,958	17,628	**(1,067)**	(997)	152	**23,154**	22,951	18,055
Increase in Cash and Cash Equivalents	**(4,982)**	1,478	1,711	**(1,824)**	(667)	1,126	**(3,158)**	2,145	585
Cash and Cash Equivalents									
Beginning of year	**8,453**	6,975	5,264	**3,300**	3,967	2,841	**5,153**	3,008	2,423
Inter-entity Elimination	**(1)**	–	–	**–**	–	–	**–**	–	–
End of Year	**3,470**	8,453	6,975	**1,476**	3,300	3,967	**1,995**	5,153	3,008
Represented by:									
Cash	**–**	(13)	(7)	**–**	(13)	(7)	**–**	–	–
Cash Equivalents	**3,470**	8,466	6,982	**1,476**	3,313	3,974	**1,995**	5,153	3,008
	3,470	8,453	6,975	**1,476**	3,300	3,967	**1,995**	5,153	3,008
Supplementary Disclosure of Cash Flow Information									
Amount of Interest Paid During the Year	**5,411**	3,901	3,166	**1,052**	818	771	**4,406**	3,106	2,418
Amount of Income Taxes Paid During the Year	**507**	589	494	**507**	589	494	**–**		

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2007

1. CORPORATE MANDATE

The consolidated financial statements include the accounts of Canada Mortgage and Housing Corporation (CMHC, or the Corporation) and Canada Housing Trust (CHT), a variable interest entity. Within the Public Accounts of Canada, the annual consolidated Net Income increases the Government's annual surplus; the consolidated Retained Earnings and Accumulated Other Comprehensive Income reduce the Government's accumulated deficit.

CMHC was established as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also subject to Part X of the *Financial Administration Act* (the "FAA") by virtue of being listed in Part I of Schedule III, and is wholly owned by the Government of Canada.

The Corporation's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing, and the national well-being of the housing sector. The mandate is carried out through the following four activities:

Insurance: CMHC provides insurance against borrower default on residential mortgages.

Securitization: CMHC guarantees the timely payment of principal and interest for investors in securities based on insured mortgages. The CMHC Guarantee is a direct and unconditional obligation of CMHC as an agent of Canada. It carries the full faith and credit of Canada, and constitutes a direct and unconditional obligation of and by the Government of Canada.

Housing Programs: CMHC receives Parliamentary Appropriations to fund housing programs for Canadians in need.

Lending: CMHC makes loans and investments in housing programs which are funded by borrowings. A significant number of these loans and investments are supported with housing program payments.

Canada Housing Trust was established in 2001 as an Issuer Trustee. CHT's functions are limited to the acquisition of interests in eligible housing loans such as NHA Mortgage-Backed Securities (NHA MBS), the purchase of highly rated investments, certain related financial hedging activities and the issuance of Canada Mortgage Bonds (CMB). The CMB are guaranteed by CMHC under its Securitization Activity. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements are summarized on the following pages and conform in all material respects to GAAP.

The following are the significant accounting policies:

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, comprehensive income and related disclosures. Key areas where management has made estimates and assumptions include those related to the fair value of financial instruments (note 14), employee future benefits (note 18) and provision for claims (note 9). Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods.

Basis of Presentation

These consolidated financial statements include the accounts of CMHC and, as required by *Accounting Guideline 15: Consolidation of Variable Interest Entities* (AcG-15), the accounts of CHT, a variable interest entity (VIE) for which CMHC is considered to be the primary beneficiary. The assets and liabilities of CHT are netted against [illegible] separately in the consolidated financial statements and related notes. Revenues, expenses and cash flows relating to CHT have received similar treatment. Inter-entity balances and transactions have been eliminated in the consolidated figures.

Financial Instruments

Effective 1 January 2007 CMHC and CHT began classifying their financial assets in the following categories: designated at fair value, loans and receivables, held to maturity and available for sale. Two classifications are used for financial liabilities: designated at fair value and other financial liabilities. The classification is determined by management at initial recognition and depends on the purpose for which the financial assets were acquired or liabilities were incurred. Derivatives and Securities Sold But Not Yet Purchased are classified as Held for Trading.

Classification	Accounting Treatment
Held for Trading (HFT)	Derivatives that have not been designated as hedges for accounting purposes. Derivatives are measured at fair value. Gains and losses arising from changes in the fair value are recorded in Net Income in the period in which they arise. Transaction costs are expensed as incurred.
Designated at Fair Value	Section 3855 provides an entity the option of designating a financial instrument as HFT on its initial recognition or on adoption of this standard, even if it was not acquired for the purpose of selling or repurchasing in the near term. Financial instruments which belong to a group managed and evaluated on a fair value basis in accordance with documented risk management strategies are designated at fair value under the fair value option. This designation is irrevocable. Financial instruments designated at fair value are measured at fair value. Gains and losses arising from changes in the fair value are recorded in Net Income in the period in which they arise. Transaction costs are expensed as incurred.
Loans and Receivables	Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not debt securities. Loans and Receivables are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.
Held to Maturity (HTM)	HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that management has the positive intention and ability to hold to maturity. HTM financial assets are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.
Available for Sale (AFS)	AFS financial assets are non-derivative financial assets which are designated as such, or which have not been designated in any other classification. AFS financial assets are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in the fair value are recorded in Other Comprehensive Income (OCI) until the financial asset is sold, derecognized, or determined to be other than temporarily impaired. Interest income is recorded using the effective interest method.
Other Financial Liabilities	Other Financial Liabilities are non-derivative financial liabilities which have not been designated at fair value. Other Financial Liabilities are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

Settlement date accounting is used for purchases and sales of financial assets. Realized gains and losses on sales are recognized on a weighted average cost basis.

The Corporation assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. For financial assets classified as HTM that are determined to be other than temporarily impaired, the asset is written down to fair value to recognize the loss and the write-down is recorded in Other Income. If an AFS financial asset is determined to be other than temporarily impaired, the unrealized loss recorded in Accumulated Other Comprehensive Income (AOCI) is reversed and recorded in Realized Gains (Losses) from Available for Sale Financial Instruments. For Loans and Receivables, it is unlikely that a write-down would be required as CMHC is assured full collection of principal and accrued interest through provisions in the Social Housing Agreements, provisions in the *National Housing Act*, Ministerial loan guarantees or the loans are underwritten though CMHC's Insurance Activity.

Determination of Fair Value

All financial instruments are recognized initially at fair value. The fair value of a financial instrument on initial recognition is the transaction price, that is, the fair value of the consideration given or received, net of transaction costs.

Subsequent to initial recognition, financial assets and financial liabilities quoted in active markets are measured based on bid and ask prices respectively. Financial instruments not quoted in active markets are measured at fair value using valuation techniques such as discounted cash flow analysis which refer to observable market data. Accrued interest is separately disclosed for all financial instruments.

Active Market:

Financial assets quoted in active markets are measured based on the bid price. This includes Investment Securities (other than Third-Party Asset-Backed Commercial Paper) and Treasury Bills included in Cash Equivalents. Financial liabilities quoted in active markets are measured based on the ask price. This includes Canada Mortgage Bonds, Capital Market Borrowings (other than commercial paper and floating rate notes) and Securities Sold But Not Yet Purchased.

No Active Market:

Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow analysis making maximum use of inputs observable in the market. Financial instruments whose fair value is determined in this manner include Investment in NHA MBS, Loans and Investments in Housing Programs, Cash Equivalents (other than Treasury Bills), Securities Purchased Under Resale Agreements, Derivative Financial Instruments, commercial paper and floating rate notes included in Capital Market Borrowings, and Securities Sold Under Repurchase Agreements.

For all other financial instruments, the carrying value is assumed to approximate fair value due to the short-term nature.

Investment in NHA Mortgage-Backed Securities

Prior to 1 January 2007, Investment in NHA Mortgage-Backed Securities were recorded at amortized cost with premiums and discounts deferred and amortized on a straight-line basis accelerated for unscheduled principal repayments. Commencing 1 January 2007, these investments are designated at fair value. Changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value.

Investment Securities

Prior to 1 January 2007, Investment Securities were recorded at amortized cost with premiums and discounts deferred and amortized using the effective interest method over the term of the related investment. Gains and losses on Investment Securities in the Lending Activity and CHT were included in income at the time of sale. Gains and losses on Investment Securities in the Insurance and Securitization Activities were deferred and amortized over the remaining life of the original investment.

Commencing 1 January 2007, Investment Securities in the Lending Activity and CHT are designated at fair value. Changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value. Investment Securities in the Insurance and Securitization Activities are classified as AFS. Changes in fair value are recorded in Other Comprehensive Income. Interest income on fixed income investments is recorded in Interest Income from Investment Securities using the effective interest method. Dividend income is recorded in Interest Income from Investment Securities when the right to the dividend is established.

Loans

Prior to 1 January 2007, all Loans were carried at amortized cost. Commencing 1 January 2007, Loans that are part of hedged portfolios are designated at fair value under the fair value option. Changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value.

All other loans are classified as Loans and Receivables and continue to be carried at amortized cost. Where loans contain forgiveness clauses, they are recorded net of the forgiveness that is reimbursed through Parliamentary Appropriations when the loans are advanced.

Interest income is recognized using the effective interest method in Interest Earned on Loans and Investments in Housing Programs.

CMHC is reimbursed for interest rate losses resulting from certain loans for housing programs containing interest rate clauses lower than the interest cost on the related borrowings, issued from 1946 to 1984 through provisions of the *National Housing Act*. These appropriations are voted on an annual basis by Parliament and CMHC has over a 30 year history of past collection of interest losses through appropriations. CMHC measures these loans at amortized cost which assumes the continued receipt of appropriations going forward. If the appropriations are not received in a future year, the loans would no longer be considered to have been issued at "market rates" and the valuation of these loans would change.

Investments in Housing Programs

Investments in Housing Programs represent CMHC's exposure through loans made to various housing projects and are carried at amortized cost. These financial assets are classified as Loans and Receivables. Interest income on Investments in Housing Programs is recorded in Interest Earned on Loans and Investments in Housing Programs on an accrual basis using the effective interest method. The Corporation's portion of net operating losses and disposal losses on the housing programs is reimbursed through Parliamentary Appropriations.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements (Reverse Repurchase Agreements) consist of the purchase of securities, typically government treasury bills or bonds, with the commitment to resell the securities to the original seller at a specified price and future date in the near term. Securities Sold Under Repurchase Agreements (Repurchase Agreements) consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term.

Securities Purchased Under Resale Agreements held by CHT and those entered into with proceeds from Securities Sold But Not Yet Purchased are designated at fair value under the fair value option. Changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value.

The remainder of Securities Purchased Under Resale Agreements are classified as HTM and Securities Sold Under Repurchase Agreements are classified as Other Financial Liabilities. These items are carried at amortized cost using the effective interest method, plus accrued interest. Proceeds from Securities Sold Under Repurchase Agreements are generally invested in Securities Purchased Under Resale Agreements or cash equivalents for the purpose of generating additional income. Such transactions are entered into simultaneously with matching terms to maturity. The associated interest earned and interest expense are recorded in Interest Income from Investment Securities and Interest Expense respectively.

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of cash and short-term, highly liquid investments with an original term to maturity of 98 days or less that are readily convertible to known amounts of cash. Cash Equivalents funded by Securities Sold Under Repurchase Agreements are classified as HTM and recorded at amortized cost using the effective interest method. The remainder are either designated at fair value or classified as AFS depending on whether they relate to the Lending Activity or the Insurance and Securitization Activities respectively. Cash equivalents must have a minimum credit rating of R-1 (Low) or equivalent as determined by S&P, Moody's or DBRS at the time they are purchased.

Derivatives

The Corporation enters into derivatives such as interest rate swaps, foreign currency swaps, interest rate futures and equity index futures in order to manage its exposures to market risks. These derivatives are only contracted with creditworthy counterparties (minimum rating of A- or equivalent as determined by S&P, Moody's or DBRS) and are not used for speculative purposes.

Prior to 1 January 2007, certain derivatives were designated as eligible hedges. For these derivatives, the hedge relationship was designated and formally documented at inception. Formal assessments were conducted on an ongoing basis to determine whether the hedge was highly effective in offsetting either changes in fair value or future cash flows of hedged items. Derivatives that did not qualify or were not designated as eligible hedges for accounting purposes were carried at fair value on the Consolidated Balance Sheet. Hedge accounting was discontinued prospectively on 1 January 2007.

Commencing 1 January 2007, derivatives are classified as HFT and carried at fair value on the Consolidated Balance Sheet. Derivatives with a positive fair value are reported as assets, while derivatives with a negative fair value are reported as liabilities. Subsequent changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value.

Derivatives may be embedded in other financial instruments and are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not HFT or designated at fair value. CMHC elected a transition date of 1 January 2003 to identify derivatives embedded in existing contracts.

Inventory of Real Estate

Inventory of Real Estate is carried at the lower of cost and fair value. Cost is determined as the acquisition cost, plus modernization and improvement costs where applicable. Fair value is calculated as the current market value of the property, less the discounted value of estimated holding and disposal costs.

For certain properties, net operating losses and disposal losses are reimbursed through Parliamentary Appropriations while net operating profits and disposal gains are returned to the Government of Canada.

For the remaining properties, realized gains and losses on disposal are recorded in Net Claims.

Canada Mortgage Bonds

Canada Mortgage Bonds (CMB), which are issued by CHT and guaranteed by CMHC, are interest bearing bullet bonds. Coupon interest payments are made semi-annually for fixed-rate CMB and quarterly for floating-rate CMB. Principal repayments on the bonds are made at the end of the term. Prior to 1 January 2007, CMB were carried at amortized cost. Direct costs associated with the issuance of the bonds are expensed in the year incurred. Commencing 1 January 2007, the bonds are designated at fair value and changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value. The Approved MBS Sellers reimburse CHT for the cost of arranging financing, including the fees paid to CMHC as Guarantor and Financial Services Advisor, underwriters and others for the distribution of CMB.

Capital Market Borrowings

Prior to 1 January 2007, Capital Market Borrowings were carried at amortized cost. Premiums and discounts were deferred and amortized using the effective interest method and issuance costs were deferred and amortized on a straight-line basis over the term of the debt issue. Commencing 1 January 2007, Capital Market Borrowings are designated at fair value and changes in fair value are recorded in Gains (Losses) from Financial Instruments Designated at Fair Value. Issuance costs on Capital Market Borrowings are recognized in Interest Expense in the year incurred.

Premiums and Fees

Insurance:

Insurance premiums are due at the inception of the mortgage being insured at which time they are deferred and recognized as income over the period covered by the insurance contract using factors determined by an Appointed Actuary. These factors reflect the long-term pattern for default risk of the underlying mortgages.

Unearned premiums represent the portion of the premiums written that relates to the unexpired portion of the policy at the Balance Sheet date and therefore relate to claims that may occur from the Balance Sheet date to the termination of the insurance policies. Annually, the unearned premiums are compared to an estimate of total future claims on a discounted basis to ensure the amount is sufficient. Should such amount not be sufficient, a provision for premium deficiency would be recorded.

Application fees and direct costs associated with issuing mortgage insurance policies are deferred and amortized on the same basis as the related premiums.

Securitization:

Guarantee fees from the Securitization Activity are received at the inception of the related security issue at which time they are deferred and recognized as income over the term of the security issue on a straight-line basis.

Application fees and direct costs associated with issuing the timely payment guarantees are deferred and amortized over the term of the security issue on a straight-line basis.

Provision for Claims

The Provision for Claims represents an estimate for expected claims and the related settlement expenses, net of the related expected mortgage foreclosure proceeds, for defaults from the Insurance business that have occurred on or before the Balance Sheet date. The provision takes into consideration the estimate of losses on defaults that have been incurred but not reported, the time value of money and in accordance with accepted actuarial practice, includes an explicit provision for adverse deviation.

The establishment of the Provision for Claims involves estimates, which are based upon historical trends, prevailing legal, economic, social and regulatory trends, and expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps significantly, from the estimates made.

The loss on actual mortgage defaults and the change in the estimated Provision for Claims are recorded in Net Claims in the year in which they occur.

Securities Sold But Not Yet Purchased

Securities Sold But Not Yet Purchased represent an obligation to deliver Government of Canada Bonds which are not owned at the time of sale. These obligations are classified as HFT with realized and unrealized gains and losses recorded in Gains (Losses) from Financial Instruments Designated at Fair Value.

Income Taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the estimated tax effect of temporary differences between the carrying value of assets and liabilities on the financial statements and their respective tax bases. The Corporation uses substantively enacted income tax rates at the Balance Sheet date that are expected to be in effect when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

Housing Programs

Parliamentary Appropriations for Housing Programs, and the related expenses, are recorded on an accrual basis. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Employee Future Benefits

CMHC provides a defined benefit pension plan, a supplemental pension plan, and other post-employment benefits consisting of severance pay, life insurance and medical insurance.

Pension benefits are based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The pension benefits are adjusted annually by a percentage equivalent to the total average change in the Consumer Price Index during the previous year. The obligations under employee benefit plans and the related costs are accrued, net of plan assets.

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected long-term pension plan investment performance, salary increases, retirement ages of employees, mortality of members and expected health care costs. These assumptions are of a long-term nature, which is consistent with the nature of employee future benefits. Actual results could differ from these estimates.

Costs are determined as the cost of employee benefits for the current year's service, interest cost on the accrued benefit obligation, expected investment return on the fair value of plan assets, and the amortization of the transitional asset/obligation, the deferred past service costs and the deferred actuarial gains/losses.

The transitional asset/obligation and past service costs are deferred and amortized on a straight-line basis over the expected average remaining service period of active employees under the plans. The excess of the net actuarial gain/loss over 10% of the greater of the benefit obligation or the fair value of the plan assets is deferred and amortized on a straight-line basis over the expected average remaining service period of active employees under the plans.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Exchange gains and losses resulting from the translation of foreign denominated balances are included in Gains (Losses) from Financial Instruments Designated at Fair Value.

Change in Accounting Estimate

Mortgage insurance premiums are recognized as revenue over the period covered by the insurance contracts using actuarially determined factors that are reviewed annually. Effective 1 January 2007, these factors were changed to better reflect the emerging nature of the claim occurrence experience. Premiums and Fees revenue on the Statement of Income and Comprehensive Income is $112 million higher in 2007 while Unearned Premiums and Fees on the Consolidated Balance Sheet as at 31 December 2007 is $112 million lower than it would have been had this change not been implemented. Unearned Premiums and Fees is $157 million lower at 31 December 2008 and $159 million lower at 31 December 2009, resulting in Premiums and Fees revenue being $46 million higher in 2008 and $2 million higher in 2009.

Future Accounting Changes

The following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) become effective for the Corporation and CHT on 1 January 2008: Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation*. The impact of implementing these sections is not currently known.

3. CHANGE IN ACCOUNTING POLICY

The Corporation and CHT adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3865, *Hedges*, Section 1530, *Comprehensive Income*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3251, *Equity* on 1 January 2007. The adoption of these new standards resulted in changes in the accounting treatment for financial instruments and hedges as well as the recognition of certain transitional adjustments. As required by the CICA, comparative amounts for prior periods have not been restated.

Financial Assets and Financial Liabilities

Prior to the adoption of the new standards, all financial assets and financial liabilities were recorded at either cost or amortized cost. Under the new standards, financial assets and financial liabilities are initially recognized at fair value and subsequently accounted for based on their classification described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Designated at Fair Value

Financial assets and financial liabilities that are managed on a fair value basis in accordance with a documented risk management strategy are designated at fair value. These instruments are accounted for at fair value with the change in fair value recorded in Gains (Losses) from Financial Instruments Designated at Fair Value. Assets totalling $9,192 million for CMHC and $95,521 million for CHT and liabilities totalling $8,625 million for CMHC and $95,483 million for CHT at 31 December 2006, were designated at fair value on 1 January 2007.

Available for Sale (AFS)

Financial assets in the Insurance and Securitization Activities are classified as AFS. They are carried at fair value with changes in fair value recorded in Other Comprehensive Income. Unrealized losses are recognized in income whenever it is necessary to reflect an other than temporary impairment. Gains and losses realized on disposal of AFS financial assets, which are calculated on an average cost basis, are recognized in income. Investment Securities and Cash Equivalents totalling $10,226 million and $150 million respectively at 31 December 2006 were designated as AFS on 1 January 2007.

Held to Maturity (HTM)

Securities Purchased Under Resale Agreements and Cash Equivalents funded by Securities Sold Under Repurchase Agreements are classified as HTM and carried at amortized cost using the effective interest method. This classification did not result in adjustments to the Financial Statements.

Loans and Receivables

Loans and Receivables are carried at amortized cost using the effective interest method. This classification is consistent with the classification under the prior accounting standards.

Other Financial Liabilities

Borrowings from the Government of Canada and Securities Sold Under Repurchase Agreements have been classified as other financial liabilities and continue to be measured at amortized cost.

Hedge Accounting

CMHC and CHT have elected not to apply hedge accounting (Section 3865, *Hedges*) to effective hedging relationships. Hedge accounting was discontinued on 1 January 2007 and all derivatives were classified as HFT. The impact of discontinuing hedge accounting and recording these derivatives at fair value was a $63 million reduction to opening Retained Earnings for CMHC and a $609 million increase to opening Retained Earnings for CHT.

Comprehensive Income

Comprehensive Income is composed of Net Income and Other Comprehensive Income. Other Comprehensive Income includes net unrealized gains and losses on AFS financial assets net of taxes.

Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income (AOCI) is a separate component of Equity of Canada and includes net unrealized gains and losses on AFS financial assets net of taxes.

Transitional Adjustments

The following table summarizes the adjustments that were required to adopt the new standards. The adjustments were made in accordance with the transitional provisions of the new standards which determined whether the transitional adjustments were recorded in opening Retained Earnings or opening AOCI.

(in millions of dollars)	31 December 2006	Adjustment to Opening Retained Earnings	Adjustment to Opening AOCI	1 January 2007
CMHC				
Investment Securities:				
Available for Sale	10,226	(20)	770	10,976
Loans:				
Designated at Fair Value	7,837	67	–	7,904
Future Income Tax Assets	140	(61)	(236)	(157)
Derivatives	83	38	–	121
Accounts Receivable and Other Assets	446	(8)	–	438
Assets not impacted	9,867	–	–	9,867
Total Assets	**28,599**	**16**	**534**	**29,149**
Capital Market Borrowings	(8,625)	(5)	–	(8,630)
Accounts Payable and Other Liabilities	(896)	463	–	(433)
Derivatives	(9)	(342)	–	(351)
Retained Earnings	(5,429)	(132)	–	(5,561)
Accumulated Other Comprehensive Income	–	–	(534)	(534)
Liabilities and Equity of Canada not impacted	(13,640)	–	–	(13,640)
Total Liabilities and Equity of Canada	**(28,599)**	**(16)**	**(534)**	**(29,149)**
CHT				
Investment in NHA Mortgage-Backed Securities	76,599	(37)	–	76,562
Investment Securities:				
Designated at Fair Value	2,902	(3)	–	2,899
Securities Purchased Under Resale Agreements	10,867	(1)	–	10,866
Cash Equivalents	5,153	(1)	–	5,152
Derivatives	–	715	–	715
Accrued Interest Receivable	924	(603)	–	321
Total Assets	**96,445**	**70**	**–**	**96,515**
Canada Mortgage Bonds	(95,483)	36	–	(95,447)
Derivatives	–	(106)	–	(106)
Liabilities not impacted	(962)	–	–	(962)
Total Liabilities	**(96,445)**	**(70)**	**–**	**(96,515)**

Impact on Current Earnings

The unrealized loss on financial instruments designated at fair value and required to be classified as HFT resulted in a $ [illegible] on consolidated net income for 2007.

4. INVESTMENT IN NHA MORTGAGE-BACKED SECURITIES AND INVESTMENT SECURITIES

Investment in NHA Mortgage-Backed Securities

The following table shows the maturity structure and average yield for the amortized cost of CHT's NHA MBS. The NHA MBS maturities are estimated based on assumptions regarding mortgage prepayments (1%) and liquidations (4%), excluding new issuance and unscheduled prepayments.

(in millions of dollars)	Term to Maturity					
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2007	2006
Investment in NHA Mortgage-Backed Securities	21,940	36,192	37,891	–	**96,023**	76,599
Yield[1]	4.21%	4.29%	4.45%	–	**4.33%**	4.29%

[1] Represents the weighted-average yield, which is determined by applying the weighted average of the effective yields of individual securities.

Investment Securities

The following table shows the maturity structure and average yield for Investment Securities.

(in millions of dollars)	Remaining Term to Maturity: Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2007	2006
Available for Sale						
CMHC						
Corporate/Other Entities	189	651	614	1,828	3,282	
Government of Canada	32	711	1,236	925	2,904	
Provinces/Municipalities	63	202	481	2,265	3,011	
Sovereign and Related Entities	–	76	76	521	673	
Total Fixed Income	284	1,640	2,407	5,539	9,870	
Yield[1]	3.68%	4.51%	4.64%	4.72%	4.63%	
Canadian Equities					1,207	
U.S. Equities					510	
Foreign Equities					515	
Total Equities					2,232	
Yield[2]					5.10%	
Total CMHC Available for Sale					12,102	
Inter-entity Elimination[3]					(1,379)	–
Consolidated Total Available for Sale					10,723	
Designated at Fair Value						
CMHC						
Corporate/Other Entities	486	433	12	–	931	
Sovereign and Related Entities	–	49	–	–	49	
Total CMHC Designated at Fair Value	486	482	12	–	980	
Yield[1]	3.80%	4.83%	4.92%	–	4.31%	
CHT						
Corporate/Other Entities	531	–	–	–	531	
Government of Canada	412	128	35	–	575	
Total CHT Designated at Fair Value	943	128	35	–	1,106	
Yield[1]	4.69%	4.07%	4.23%	–	4.61%	
Consolidated Total Designated at Fair Value					2,086	
Held to Maturity	69	–	–	–	69	–
Investment Securities						
CMHC						
Corporate/Other Entities	–	–	–	–	–	
Government of Canada	–	–	–		–	
Provinces/Municipalities					–	
Sovereign and Related Entities	–	–	–	–	–	360
Total Fixed Income	–	–	–	–	–	9,282
Yield[1]	–	–	–	–	–	4.47%
Canadian Equities					–	84
U.S. Equities					–	38
Foreign Equities					–	349
Total Equities					–	1,571
Yield[2]					–	2,999
Total CMHC Investment Securities					–	10,853
CHT						
Corporate/Other Entities	–	–	–	–	–	1,442
Government of Canada	–	–	–	–	–	1,230
Total CHT Fixed Income					–	2,672
Yield[1]					–	4.11%
Inter-entity Elimination[3]						(1,379)
Consolidated Total Investment Securities					–	2,672

1 Represents the weighted-average yield, which is determined by app

2 Represents the average yield, w

3 Represents investments held by

The following table shows the total consolidated financial investments.

(in millions of dollars)	2007 Amortized Cost	2007 Gross Unrealized Gains	2007 Gross Unrealized Losses	2007 Fair Value	2006 Amortized Cost	2006 Fair Value
CMHC						
Fixed Income Securities						
Available for Sale	9,726	211	(67)	**9,870**	8,652	8,876
Designated at Fair Value	991	–	(11)	**980**	630	630
Held to Maturity	69	–	–	**69**	–	–
Equities	1,879	371	(18)	**2,232**	1,574	2,082
Total CMHC	12,665	582	(96)	**13,151**	10,856	11,588
CHT						
Investment in NHA MBS	95,602	476	(55)	**96,023**	76,599	79,958
Fixed Income Securities						
Designated at Fair Value	1,096	11	(1)	**1,106**	2,902	2,902
Total CHT	96,698	487	(56)	**97,129**	79,501	82,860

The fixed income securities issued or guaranteed by the Government of Canada resulted in income of $133 million (2006 – $130 million, 2005 – $128 million) for CMHC and $54 million (2006 – $58 million, 2005 – $36 million) for CHT. Accrued Interest Receivable on these investments is $15 million (2006 – $23 million) for CMHC and $7 million (2006 – $22 million) for CHT.

Sales of investment securities in the Lending Activity resulted in a net loss of $1 million in 2007 (2006 – $1 million gain, 2005 – $2 million gain) which has been recorded in Gains (Losses) from Financial Instruments Designated at Fair Value. Sales of investment securities in the Insurance and Securitization Activities resulted in a net gain of $91 million which has been recorded in Realized Gains (Losses) on Available for Sale Financial Instruments. Prior to 2007, realized gains and losses in these activities were deferred. The 2006 and 2005 realized gains amounted to $26 million and $171 million respectively.

Investment securities of $936 million (2006 – $2,633 million) have been pledged as security against Securities Sold Under Repurchase Agreements. CMHC continues to earn interest income and recognizes changes in fair values on these investment securities during the period pledged.

The cumulative loss of $85 million included in Accumulated Other Comprehensive Income (2006 – n/a, 2005 – n/a) has not been recognized as an impairment loss in Net Income because CMHC believes that the decline in fair value is temporary. Factors reviewed to determine whether an impairment is other-than-temporary include prolonged declines in fair value, financial reorganization, corporate restructuring, bankruptcies and other indications of liquidity problems, or the disappearance of an active market for the asset because of financial difficulties.

Asset-Backed Commercial Paper (ABCP)

Sponsored by Canadian Banks

At 31 December 2007, CMHC held ABCP investments sponsored by the Canadian banks with a carrying value of $1,084 million. Bank Sponsored ABCP has continued to perform and payments have been made as per the terms of the agreements. As a result, these investments continue to be presented as Cash and Cash Equivalents.

Sponsored by Third Parties

At 31 December 2007, CMHC held Canadian Third-Party Sponsored ABCP issued by a number of trusts (conduits) with an original cost of $249 million, of which, $70 million was classified as Available for Sale, $102 million as Designated at Fair Value and $77 million classified as Held to Maturity. At the dates CMHC acquired these Third-Party ABCP, they were rated R-1 (High) by Dominion Bond Rating Service (DBRS), the highest credit rating issued for commercial paper.

In August 2007, the Canadian market for Third-Party ABCP became illiquid resulting in these investments not paying on maturity.

An agreement, The Montreal Accord (the "Accord"), was reached in August 2007 whereby investors agreed to a standstill, that commits investors not to take any action which would result in an event of default. The agreement also called for the formation of an Investment Committee (the "Committee") which was tasked with finding a fair and equitable way to restructure the paper. Of the $249 million held by CMHC, $239 million are for conduits in the Accord. On 23 December 2007, an agreement in principle, expected to be ratified in March 2008, was reached regarding the restructuring of the ABCP. This agreement forms the basis for the valuation estimates made.

At 31 December 2007, CMHC adjusted the carrying value of the Third-Party ABCP it owned to recognize impairment in the value of some of the conduits. The adjustment of $23 million was recognized in the Consolidated Statement of Income and Comprehensive Income, specifically $5 million under Realized Gains (Losses) from Available for Sale Financial Instruments, $10 million under Gains (Losses) from Financial Instruments Designated at Fair Value and $8 million under Other Income. This adjustment represents Management's best estimate of impairment within a reasonable range of possible write-downs. CMHC has not recognized any interest income on its Third-Party ABCP since the original maturity date and all 2007 costs related to the restructuring have been expensed.

In the absence of an active market and market quotations for Third-Party Sponsored ABCP at 31 December 2007, determination of the fair value of these instruments was estimated using valuation techniques, including a probability weighted approach based on a high probability of successful restructuring versus orderly disposal, weighted discounted future cash flows techniques (taking into account the lack of liquidity and uncertainty of the terms and conditions of underlying assets and eventual restructuring), and comparable and reasonable write-downs taken for similar assets. Whenever available, observable market inputs for comparable securities were used to determine the expected coupon rate, discount rates, timing of cash flows and the maturities of the floating rate notes.

Based on publicly available information at 31 December 2007, CMHC's valuation assumed the following for each class of assets:

- **Traditional securitized assets ($56 million):** CMHC will receive replacement long-term floating rate notes with an expected AAA credit rating and an average maturity of seven years.
- **Combination of synthetic assets and traditional securitized** assets and **leveraged collateralized debt ($171 million):** CMHC will receive pooled synthetic long-term tracking rate notes, divided into senior and subordinated tranches, with the significant majority being ranked senior. The senior notes are expected to receive AAA credit rating while the subordinated notes are expected to be unrated. The notes would have a maturity of seven and eight years respectively.
- **Exposure to sub-prime assets which were labelled as ineligible ($12 million):** CMHC will receive a long-term tracking note for these assets which are expected to be unrated and for which the maturity is unknown at this time. In the absence of information, CMHC assumed a 50% write-down of the assets as an appropriate level for sub-prime assets.

CMHC's valuation was based on its assessment of the prevailing conditions at 31 December 2007, which may change materially in subsequent periods. The most significant factor which may have an impact on the future value of Third-Party Sponsored ABCP is the outcome of the restructuring under the Accord. However, CMHC believes that there is a high probability of successful restructuring. CMHC calculated the fair value under a range of reasonable alternative scenarios and obtained results varying from a $13 million reduction in value to a $28 million reduction in value, compared to the $23 million recorded.

CMHC's ability to respect its commitments and to fulfill its mandate was not impacted by the ABCP liquidity issue. CMHC does not anticipate any difficulties in respecting future obligations and in continuing its normal course of business.

5. LOANS AND INVESTMENTS IN HOUSING PROGRAMS

Loans

CMHC provides loans either independently or jointly with provincial, territorial, and municipal authorities. Loans were issued for terms up to 50 years and $11,062 million (2006 – $11,390 million) are due beyond five years.

Approximately $10,683 million, representing 95% (2006 – $10,937 million, or 95%) of the loans, are supported with housing program payments outlined in Note 12.

At 31 December 2007, CMHC is assured full collection of principal and accrued interest on the majority of the loans from the Provinces and Territories through provisions in Social Housing Agreements (2007 – 45%, 2006 – 45%), the Government of Canada through provisions in the NHA (2007 – 24%, 2006 – 25%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (2007 – 7%, 2006 – 6%). The remainder of the loan portfolio (2007 – 24%, 2006 – 24%) is underwritten through CMHC's Insurance Activity. Provision for losses on these loans is included in the determination of Provision for Claims and Unearned Premiums.

As described in Note 2, CMHC receives interest loss recoveries on certain loans containing interest rate clauses lower than the interest cost on the related borrowings. Of the future cash flows to be received on these loans, approximately 2% (with a fair value of $110 million) will be recovered from the government and the remainder will be recovered directly from the borrowers. The estimated recoveries on these loans from the government for the next five years are as follows:

(in millions of dollars)	2008	2009	2010	2011	2012
	13	13	12	12	11

Investments in Housing Programs

CMHC makes loans to housing programs either independently or jointly with provincial, territorial, and municipal authorities. The majority of these loans to housing programs are being transferred to the Provinces/Territories under the Social Housing Agreements (SHAs). For the most part, the Provinces/Territories are gradually acquiring CMHC's interest in the housing programs by making payments to CMHC. Once fully reimbursed, CMHC will have no remaining claim on housing programs.

Approximately $1,073 million, representing 100% (2006 – $1,140 million, or 100%) of the investments in housing programs, are supported with housing program payments outlined in Note 12.

At 31 December 2007, CMHC is assured full collection of principal and accrued interest on the portfolio from the Provinces and Territories through provisions in Social Housing Agreements (2007 – 96%, 2006 – 96%) and the Government of Canada through provisions in the NHA (2007 – 4%, 2006 – 4%).

6. INCOME TAXES

CMHC is subject to federal income tax. It is not subject to provincial income tax. CHT is subject to federal and provincial taxes on the amount of taxable income for the period and is permitted a deduction for all amounts paid or payable to C beneficiaries in determining income for tax purposes. As all income was distributed to the beneficiaries, no provision for income t has been reflected in these consolidated financial statements.

The following is a reconciliation of the statutory tax rate.

(in millions of dollars)	2007	2006	2005
Income Taxes Computed at Statutory Tax Rate (2007 – 33%, 2006 – 33%, 2005 – 33%)	508	482	47
Change in Tax Rates on Future Income Taxes	1		
Permanent Differences	(10)	(6)	(6)
Other	5	(5	
Income Tax Expense	504	456	

The following table presents the total income taxes.

(in millions of dollars)	2007	2006	2005
Other Comprehensive Income:			
Net Unrealized Losses on Available for Sale Financial Instruments	(41)		
Reclassification Adjustment for Net Gains Included in Net Income	(39)		
Income Tax Benefit on Other Comprehensive Income	(80)		
Effect of Adopting New Accounting Standards for Financial Instruments	298		
Income Tax Benefit on Earnings Set Aside for Capitalization	(4)		
Income Tax Expense on Consolidated Statement of Equity of Canada	214		
Income Tax Expense on Consolidated Net Income	504	456	
	718	456	462
Inter-entity Elimination	(3)	–	
Consolidated Total Income Tax Expense	715	456	46

The following table presents the tax-effected temporary differences which result in future income tax assets and liabilities.

(in millions of dollars)	2007	2006
Future Income Tax Assets		
Fair Value of Financial Instruments	2	108
Deferred Gains on Disposal of Financial Instruments	–	
Employee Future Benefits	16	
Unamortized Premiums on Capital Market Borrowings	2	
Other	12	
Total Future Income Tax Assets	32	2
Future Income Tax Liabilities		
Fair Value of Financial Instruments	(43)	
Deferred Gains on Disposal of Financial Instruments	(12)	
Provision for Claims	(56)	
Pension Benefits	(16)	(16)
Total Future Income Tax Liabilities	(127)	(63
Net Future Income Tax Assets (Liabilities)	(95)	

CMHC expects to realize its future income tax assets in the normal course of its operations.

7. BORROWINGS

Canada Mortgage Bonds

The following table summarizes the carrying value and yield for the CMHC guaranteed CMB based on term to maturity.

(in millions of dollars)	2007 Carrying Value	2007 Yield[1]	2006 Carrying Value
2007	–	–	12,611
2008	20,353	4.00%	20,313
2009	13,122	3.98%	13,095
2010	19,262	4.18%	19,372
2011	30,145	4.12%	30,092
2012	36,216	4.16%	–
2013–2017	–	–	–
Thereafter	–	–	–
	119,098	4.10%	95,483
Inter-entity Elimination[2]	(1,379)	–	(816)
Total	117,719	4.10%	94,667

1 Represents the weighted-average yield, which is determined by applying the weighted average book yields of individual fixed-rate bonds and the weighted-average yields to reset of floating-rate bonds.

2 Represents investments held by CMHC in CMB issued by CHT

In order to meet the principal obligations of the CMB, the principal payments and prepayments from the underlying NHA MBS are held in an account in the name of CHT, managed and reinvested into eligible assets, which include Investment Securities, Cash Equivalents and Securities Purchased Under Resale Agreements, by the swap counterparties pursuant to contractual agreements.

The carrying amount of CMB at 31 December 2007 is $573 million higher than the contractual amount due at maturity. CMB are guaranteed by CMHC and CMHC's liabilities are backed by the full faith and credit of the Government of Canada. Therefore, there is no significant change in value that can be attributed to changes in credit risk. The change in fair value of CMB not due to changes in the risk-free rate that was recorded in Gains (Losses) from Financial Instruments Designated at Fair Value is $193 million (2006 – n/a, 2005 – n/a).

Capital Market Borrowings and Borrowings from the Government of Canada

Prior to 1993, Loans and Investments in Housing Programs were funded by Borrowings from the Government of Canada. Since that time, CMHC has made its borrowings solely from the capital markets as an agent of Canada. Legislative authority, which does not apply to borrowings of CHT, requires that the total indebtedness from the capital markets outstanding at any time cannot exceed $20 billion. The Minister of Finance approves CMHC's Borrowing Plan annually and establishes limits and parameters for borrowings.

The following table summarizes the carrying value and yield for Borrowings from the Government of Canada based on repayment and for Capital Market Borrowings based on term to maturity. Capital market borrowings include U.S. denominated debt. Foreig currency principal and interest payments are fully swapped to Canadian dollar obligations.

	2007					2006	
	Government of Canada		Capital Markets			Carrying Value	
(in millions of dollars)	Carrying Value	Yield[1]	Foreign Currency Borrowings[2]	Carrying Value	Yield[1]	Government of Canada	Capital Markets
2007	–	–	–	–	–		
2008	**210**	8.90%	993	**3,020**	4.27%		
2009	**210**	8.88%	–	**1,052**	4.32%		
2010	**204**	8.79%	1,271	**1,271**	3.94%	204	
2011	**147**	8.60%	772	**879**	4.40%	147	
2012	**313**	8.59%	–	**317**	5.53%	313	298
2013–2017	**962**	8.52%	–	**1,757**	4.43%	962	1,457
Thereafter	**2,400**	9.51%	–	–	–	2,400	
	4,446	9.11%	3,036	**8,296**	4.31%	4,701	8,625
Inter-entity Elimination[3]	–	–	–	(1)			
Total	**4,446**	9.11%	3,036	**8,295**	4.31%	4,701	8,62

1 Represents the weighted-average yield, which is determined by applying the weighted average book yields of individual fixed-rate b

2 Canadian equivalent of U.S. denominated debt

3 Represents investments held by CHT in Capital Market Borrowings issued by CMHC

Included in Capital Market Borrowings are commercial paper and medium-term debt. Commercial paper (2006 – $919 million), has an original term to maturity less than 365 days, and a yield of 4.13% (2006 includes bonds, floating-rate and fixed-rate notes, with an original term to maturity ranging from two to ten years represent $300 million (2006 – $300 million) of Capital Market Borrowings.

The 2007 interest expense related to Borrowings from the Government of Canada is $416 million (2006 – $434 2005 – $451 million) and $414 million (2006 – $410 million, 2005 – $419 million) for Capital Market Borrowing

The carrying amount at 31 December 2007 of Capital Market Borrowings is $690 million lower than the contract maturity. CMHC's liabilities are backed by the full faith and credit of the Government of Canada and there is no significant change that can be attributed to changes in credit risk. The change in fair value of Capital Market Borrowings not due to cha rate that was recorded in Gains (Losses) from Financial Instruments Designated at Fair Value is $15 million (2006

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

The following table presents the composition of Accounts Payable and Other Liabilities.

(in millions of dollars)	2007	2006
CMHC		
Accrued Housing Program Expenses	155	224
Accrued Benefit Liability for Supplemental Pension Plan and Other Post-employment Benefits	104	90
Obligation Under Capital Lease	19	20
Foreign Exchange Adjustment on Foreign Currency Swaps	–	240
Deferred Gains on Disposals of Investment Securities	–	213
Other Miscellaneous Liabilities	98	109
Total CMHC	376	896
CHT	–	1
Consolidated Total	376	897

9. INSURANCE

Role of the Appointed Actuary

The actuary is appointed by CMHC's management to carry out a valuation of the policy liabilities of the mortgage insurance activity as at 30 September and to provide an opinion to management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with Canadian accepted actuarial practice, applicable legislation, and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a Provision for Claims and Unearned Premiums. In performing the valuation of the liabilities for these contingent future events, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of CMHC and the nature of the insurance policies.

Nature of Provision for Claims

The establishment of the Provision for Claims for mortgage insurance is based on known facts and interpretation of circumstances, and is therefore a complex and dynamic process, influenced by a large variety of factors.

The following factors affect the key actuarial assumptions.

Claim emergence: Claim emergence encompasses claim frequency and claim occurrence patterns. It is based on historical trends in claims and arrears reporting.

Claim severity: Claim severity, or average loss on claims, is dependent on the dollar value of claims, losses on sales of real estate properties, administrative expenses, payment delays and sales delays. These factors are generally based on historical experience.

Economic conditions: Recent past and projected economic factors, such as unemployment rates, mortgage interest rates, and changes in house prices, affect the forecast of future claim levels.

The Provision for Claims consists of projections based on known losses and related expenses. Actual incurred amounts may not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories for which the Corporation has not accumulated sufficient historical experience.

Provisions are reviewed and evaluated at 30 September in light of emerging claim experience and changing circumstances. The resulting changes in the estimated Provision for Claims are recorded in Net Claims in the year in which they are determined.

CMHC determines Provisions for Claims and Unearned Premiums at 31 December using valuation factors from the 30 valuation, taking into account premiums received and claims paid in the intervening period.

Change in Provision for Claims

(in millions of dollars)	2007	
Balance, Beginning of Year	454	
Impact of Increased Business Volumes	22	23
Change in Assumptions:		
Claim Emergence	34	
Claim Severity	(9)	
Economic Conditions	(9)	7
Other	60	(6
Balance, End of Year	552	454

The Provision for Claims is mostly affected by changes in assumptions for economic conditions. Average 5-year mortgage interest rates increased by about 40 basis points in 2007 over 2006, while the unemployment rate improved by about 30 basis points and house price inflation remained high. Changes in actuarial assumptions for claim emergence and claim severity primarily have longer term impacts.

CMHC uses Dynamic Financial Analysis (DFA) to model the impact on the Insurance Activity of adverse economic shocks, including recessions. Recessions involve a combination of adverse interest rate impacts, high unemployment rate outcomes and deterior house prices. The DFA analysis for CMHC's 2008–2012 Corporate Plan shows that a 4-quarter recession beginning in 2008 v increase the Provision for Claims by $100 million by the end of the Corporate Plan horizon.

To provide a further measure of sensitivity of the change in Provision for Claims, it is estimated that for every 5% change ir estimate of future claim severity or every 5% change in the estimate of future claim frequency, the effect on Income Before Income Taxes would be an increase/decrease of approximately $20 million by the end of the Corporate Plan horizon.

These sensitivities are hypothetical and should be viewed in that light. The relationship of a change in assumption t value may not be linear. Changes in one factor may result in changes in another which might magnify or counteract

Insurance in Force

Under Section 11 of the NHA, the aggregate outstanding amount of mortgage insurance polic (2006 – $350 billion). At 31 December 2007, insurance policies in force totalled $334 billion (2006 – $291 billion).

10. SECURITIZATION

CMHC guarantees the timely payment of principal and interest for investors in securities issued by Approved Issuers (primarily lending institutions), on the basis of housing loans through the NHA MBS program and the CMB issued by CHT.

CMHC has determined that a provision for claims on these programs is not required. This is based on historical results and program design whereby only insured mortgages are eligible for securitization.

Guarantees in Force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $350 billion (2006 – $350 billion). At 31 December 2007, guarantees in force totalled $165 billion (2006 – $129 billion) which includes $47 billion of CMHC guaranteed NHA MBS (2006 – $34 billion) and $118 billion of CMHC guaranteed CMB issued by CHT (2006 – $95 billion) as disclosed in the following table.

(in millions of dollars)	2007	2006
Par Value	**118,525**	95,425
Fair Value Adjustment	**427**	–
Unamortized Premium	**146**	58
	119,098	95,483
Inter-entity Elimination[1]	**(1,379)**	(816)
Total	**117,719**	94,667

[1] Represents investments held by CMHC in CMB issued by CHT.

11. RETAINED EARNINGS

Earnings Set Aside for Capitalization represent the portion of cumulative Net Income generated by the Insurance Activity that has been set aside for the purposes of being consistent with capitalization guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI) and is approved annually through CMHC's Corporate Plan. Unappropriated Retained Earnings represent cumulative Net Income generated by the Insurance Activity that has not been set aside for capitalization purposes, and all of the retained earnings of the Securitization Activity.

CMHC places all other retained earnings in its Reserve for Lending. The components of this Reserve are outlined in the following table.

(in millions of dollars)	Authorized Limit	2007	2006
Reserve for New Financial Instruments Accounting Standards	50	**11**	21
Reserve for All Other Lending-Related Items	125	**110**	122
Reserve for Lending	175	**121**	143

12. HOUSING PROGRAMS

CMHC receives Parliamentary Appropriations to fund the following payments, including operating costs [illegible] programs for Canadians in need.

(in millions of dollars)	2007	2006	2005
Non-Profit Housing	618	647	[illegible]
Public Housing	491	495	483
Affordable Housing Initiative	95	167	[illegible]
Rent Supplement	150	157	[illegible]
Rural and Native Housing	134	142	[illegible]
Renovation Programs	116	[illegible]	[illegible]
On-Reserve Housing Programs	106	102	99
Urban Native Housing Program	83	9	[illegible]
Co-operative Housing	82	85	83
Limited Dividend Program	12	12	[illegible]
Research and Information Transfer	8	9	10
Other	17	[illegible]	[illegible]
Total Housing Program Expenses	1,912	2,049	1,973
Operating Costs	108	109	103
Total Appropriations	2,020	2,158	2,076

Of the total amount spent on housing programs, $1,138 million (2006 – $977 million, 2005 – $950 million) was provided in the form of contributions for programs transferred to Provinces/Territories under Social Housing Agreements (SHAs). These amounts are disclosed above based on the original allocation within the agreements which also provide that the Provinces/Territories may reallocate amounts among housing programs. The contributions to the Provinces/Territories may become repayable to CMHC if the amounts are not used in accordance with the terms and conditions of the Social Housing Agreements.

Under the SHAs, the Province/Territory assumes CMHC's financial and other obligations with respect to these programs in exchange for a pre-determined annual contribution. The accountability framework requires the Province/Territory to provide an Annual Statement of Funding and Expenditures and an Annual Program Performance Report.

Housing Program Expenses also include related party transactions between the Government of Canada [illegible] reimbursement of:

- Interest rate losses resulting from certain loans containing interest rate clauses lower than the interest cost of [illegible] borrowings;
- Net operating losses on certain investments in housing programs and real estate properties; and
- Net default losses on certain loans and net disposal losses on certain investments in housing programs and [illegible]

The following table summarizes the nature of these expenses reimbursed by the Government of Canada.

(in millions of dollars)	2007	2006	2005
Interest Rate Losses	60	67	[illegible]
Net Operating Losses	4	[illegible]	[illegible]
Net Default and Disposal Losses	3	1	1
Total	67	72	69

The reimbursement for interest rate losses is also included in Interest Earned on Loans and Investments in Housing Pr[illegible] operating, default and disposal losses are recorded as Due from the Government of Canada and Housing Progr[illegible] accrual basis. The reimbursement of operating costs is shown in the Consolidated Statement of Income and C[illegible] as Parliamentary Appropriations for Operating Expenses.

13. DERIVATIVES

Derivatives are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives (interest rate swaps, foreign currency swaps, interest rate futures and equity index futures) in connection with its risk management activities.

Interest rate swaps are transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged. The value of these swaps is derived from movements in interest rates. They are used to manage reinvestment risk, refinancing risk, or mismatches in the timing of receipts from assets versus payments of liabilities.

Foreign currency swaps are transactions in which two parties exchange currencies and interest cash flows on a specified notional amount for a predetermined period. The notional amount is exchanged at inception and at maturity. The value of these swaps is derived from movements in foreign exchange and interest rates. They are used to manage foreign exchange risk arising from foreign denominated debt.

Interest rate and equity index futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price established by an organized financial market. The credit risk is reduced as changes in the futures' contract value are settled daily. Futures are used to manage asset allocation in the Insurance and Securitization Activities.

The table below provides the notional amounts of the Corporation's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments. CMHC and CHT have no derivatives embedded in other financial instruments (host contracts) which require separation.

		2007			2006			
					Notional Amount			
(in millions of dollars)	Average Term to Maturity	Notional Amount	Fair Value Asset	Fair Value Liability	Hedge Accounting Eligible	Hedge Accounting Ineligible	Fair Value Asset	Fair Value Liability
CMHC								
Interest Rate Swaps	4 years	14,175	**32**	**9**	300	15,275	83	9
Foreign Currency Swaps	2 years	3,737	–	**698**	3,737	–	–	–
Interest Rate Futures		(58)	–	–	–	–	–	–
Equity Index Futures		–	–	–	–	–	–	–
Total CMHC		17,854	**32**	**707**	4,037	15,275	83	9
CHT								
Interest Rate Swaps	3 years	118,525	**613**	**196**	95,425	–	–	–
Consolidated Total		136,379	**645**	**903**	99,462	15,275	83	9

14. FINANCIAL INSTRUMENTS

Financial Instruments Carried at Amortized Cost

The following table outlines the fair values of financial instruments carried at amortized cost using the valuation methods and assumptions described in Note 2.

(in millions of dollars)	2007 Fair Value	2007 Amortized Cost	[illegible]	[illegible]
Other Loans	4,533	3,624	4,715	3,72
Investments in Housing Programs	1,711	1,073	1,839	
Borrowings from the Government of Canada	6,260	4,446	6,638	4

Gains and Losses

The unrealized changes in fair value related to financial instruments required to be classified as HFT and designated at fair value are presented in the table below. All derivatives are required to be classified as HFT as they have not been designated as eligible hedges for accounting purposes. In addition, Securities Sold But Not Yet Purchased are required to be classified as HFT. All other financial assets and liabilities in the table below have been designated at fair value under the fair value option.

(in millions of dollars)	Required	Designated	[illegible]	[illegible]	[illegible]
CMHC					
Investment Securities – Designated at Fair Value	–	(11)	(11)		
Loans Designated at Fair Value	–	2	2		
Capital Market Borrowings	–	413	413		
Securities Sold But Not Yet Purchased	(30)	–	(30)		
Derivatives	(410)	–	(410)	14	
CHT					
Investment in NHA Mortgage-Backed Securities	–	421	421		
Investment Securities – Designated at Fair Value	–	(1)	(1)		
Securities Purchased Under Resale Agreements	–	(2)	(2)		
Canada Mortgage Bonds	–	(427)	(427)		
Derivatives	9	–	9	–	
Consolidated Total	(431)	395	(36)	14	

There has been no change in the fair value of Loans Designated at Fair Value as a result of changes in credit risk due to t[illegible] loans are assured the full collection of principal and interest as detailed in Note 5.

Interest Income and Interest Expense

The following table outlines the total interest income and expense calculated using the effective interest method for instruments not designated at fair value.

(in millions of dollars)	2007		2006		2005	
	Income	Expense	Income	Expense	Income	Expense
Available for Sale financial assets	**448**	–	421	–	370	–
Held to Maturity financial assets	**116**		120		63	
Other Loans	**240**	–	269	–	280	–
Investments in Housing Programs	**114**	–	105	–	108	–
Securities Purchased Under Resale Agreements	**2**	–	2	–	11	–
Borrowings from the Government of Canada	–	**416**	–	434	–	451
Securities Sold Under Repurchase Agreements	–	**112**	–	117	–	75
Total Interest Income / Expense	**920**	**528**	917	551	832	526

Classification of Financial Instruments

The following is a breakdown of Cash and Cash Equivalents and Securities Purchased Under Resale Agreements by Financial Instrument classification:

(in millions of dollars)	2007				2006
	Designated at Fair Value	Available for Sale	Held to Maturity	Total	Amortized Cost
Cash and Cash Equivalents					
CMHC	41	389	1,046	**1,476**	3,300
CHT	1,995	–	–	**1,995**	5,153
Securities Purchased Under Resale Agreements					
CMHC	1,340	–	–	**1,340**	423
CHT	20,033	–	–	**20,033**	10,867

15. MARKET RISK

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rat exchange rates, and equity prices.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate beca interest rates.

The investment portfolios for the Insurance and Securitization Activities are managed taking into consideration the liability profile and limiting price sensitivity to interest rate changes relative to benchmark indices and by appropriate asset diversification. Interest rate risk associated with the Lending Activity is managed through asset and liability matching, hedging and capital market strategies

Some of CMHC's Loans and Investments in Housing Programs contain prepayment and/or repricing options. As CMHC does not have the right to prepay its Borrowings from the Government of Canada without penalty, it is exposed to interest rate risk

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in fore exchange rates.

All currency exposure arising from foreign denominated debt issuance is hedged in accordance with Corporate policy. As part of it Strategic Asset Allocation policy, the Corporation has assumed currency exposure to further its Insurance and Securit investment portfolio diversification.

Other Price Risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change CMHC is exposed to other price risk through fluctuations in prices of equity investments. The majority of investment a actively managed against selected benchmarks derived from a strategic asset allocation. CMHC limits its exposure by using tole ranges around the benchmarks for various diversification and exposure measures.

Sensitivity Analysis

Value at Risk: Market risk for AFS financial assets is evaluated through the use of a Value at Risk (VaR) mode market loss expected over a specified holding period with a given level of confidence. The following Insurance and Securitization investment portfolios, with a 95% confidence level over a two-week hol The analysis was based on one-year historical data of prices, volatilities and correlations of the various bond a

Maximum Exposure: The financial instruments Designated at Fair Value and classified as HFT in the Lendi exposed to interest rate movements. The following table shows the maximum exposure of the Lending Act margin to interest rate movements with a 95% confidence over a one year period as at 31 Decem limited by CMHC policy to $1.5 million.

(in millions of dollars)	2007 Net Income	2007 Other Comprehensive Income	Net Income	Comprehensive Income
Value at Risk	N/A	124	N/A	
Maximum Exposure	–	N/A		

16. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. CMHC is exposed to credit risk from various sources, including directly from its investment, lending and derivative transactions and indirectly from potential claims arising from the Insurance and Securitization Activities.

Credit risk associated with the Corporation's investments and derivatives is managed through the implementation of policies which include counterparty credit limits and diversification of credit risk. CHT only holds investment instruments rated R-1 high or AAA by DBRS.

Maximum Exposure to Credit Risk

CMHC's maximum exposure to credit risk is the carrying amount of assets held on the Consolidated Balance Sheet. The actual exposure to credit risk is less than this in most cases.

Securities Purchased Under Resale Agreements: By their nature these balances have a low credit risk as they are largely secured by obtaining collateral from counterparties. Collateral agreements provide for the posting of collateral by the counterparty when CMHC's exposure to that entity exceeds a certain threshold. The fair value of collateral held by CMHC as at 31 December 2007 totalled $5 million (2006 – $13 million).

Derivatives: CMHC limits its credit risk associated with derivative transacting by dealing with swap counterparties whose credit ratings are in accordance with Department of Finance guidelines, and through the use of master netting agreements for derivatives which have been entered into with all counterparties. The master netting agreements do not qualify for offset, but give CMHC a legally enforceable right to net the receivables and payables with the same counterparty.

The following table presents the credit exposure of the derivatives by term to maturity.

(in millions of dollars)	Replacement Value[1] Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Potential Future Credit Exposure[2]	Total Credit Exposure 2007	2006
CMHC							
Interest Rate Swaps	2	18	24	30	35	**109**	121
Foreign Currency Swaps	–	–	–	–	–	**–**	106
Total CMHC	2	18	24	30	35	**109**	227
CHT							
Interest Rate Swaps	108	199	305	–	362	**974**	1,122
Consolidated Total	110	217	329	30	397	**1,083**	1,349

1 Represents the total current fair value of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreements.

2 Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity which is calculated in relation to the notional principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of Financial Institutions.

CHT Risks

CHT enters into swap agreements to manage the risk that the interest earned on its investments may not be sufficient to meet its CMB obligations. With these swaps, all interest payments to CHT, net of its expenses, are paid to the swap counterparties from which CHT receives payments equal to the interest it is required to pay on the CMB. CHT is exposed to credit-related losses in the event of non-performance by the swap counterparties. CMHC mitigates this risk by requiring that CHT only transact with swap counterparties of high creditworthiness, that collateralization occurs in the event that swap counterparty credit ratings fall, and that all investments are rated R-1 (High) or AAA. CHT also mitigates risk through collateralization in the event of swap counterparties rated less than AA-. CHT is assured full collection of principal and interest on its Investments in NHA MBS through CMHC's guarantee of timely payment of principal and interest. The fair value of collateral held by CHT as at 31 December 2007 totalled $10 million (2006 – $68 million).

17. LIQUIDITY RISK

Liquidity risk is the risk that CMHC and CHT will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation has a liquidity risk policy which includes appropriate limits to ensure sufficient resources to meet current and projected cash requirements. In the normal course of business activities, the Corporation's commercial paper program provides liquidity to meet cash requirements on a daily basis. Further sources of liquidity associated with this policy include overdraft facilities, lines of credit and cash and short-term investments in marketable securities.

The following table presents the cash flows payable by CMHC and CHT under non-derivative financial liabilities by remaining contractual maturities. The amounts disclosed are undiscounted contractual cash flows.

(in millions of dollars)	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	2007	2006
Canada Mortgage Bonds	–	7,040	18,204	109,574	–	**134,818**	107,892
Capital Market Borrowings	501	702	2,533	4,419	1,952	**10,107**	10,246
Borrowings from the Government of Canada	–	144	468	2,287	6,224	**9,123**	9,916
Securities Sold Under Repurchase Agreements	1,050	–	–	–	–	**1,050**	2,873
Other Financial Liabilities	–	–	50	1,482	42	**1,574**	467
Total	1,551	7,886	21,255	117,762	8,218	**156,672**	131,394

Lines of Credit

At 31 December 2007, CMHC had $100 million (2006 – $100 million) of overnight overdraft facility available with its banker that had not been drawn. In addition, CMHC had $450 million (2006 – $450 million) in unused, uncommitted lines of credit. The lines of credit provide for loans based on Canadian prime rate and have no expiry date. During the year, CMHC has not drawn from these lines of credit.

18. EMPLOYEE FUTURE BENEFITS

CMHC provides a defined benefit pension plan, a supplemental pension plan and other post-employment benefits.

The accrued benefit asset for the defined benefit pension plan is included in Accounts Receivable and Other Assets. The total accrued benefit liability for the supplemental pension plan and for the other post-employment benefits is included in Accounts Payable and Other Liabilities. The net benefit plan cost recognized is included in Operating Expenses.

Other post-employment benefits were amended to increase benefits which resulted in $16 million of past service cost in 31 December 2007.

Total cash payments for employee future benefits were $16 million (2006 – $9 million, 2005 – $9 million). They include contributions by CMHC to its defined benefit pension plan and payments for the unfunded supplemental pension plan. Also included are disbursements for other post-employment benefits, which consist of payments to a third-party service provider on behalf of retired employees and payments made directly to employees, their beneficiaries or estates.

Information about the employee future benefits is as follows:

(in millions of dollars)	Pension Plans		Other Post-Employment Benefits	
	2007	2006	2007	2006
Accrued Benefit Obligation				
Balance, Beginning of Year	1,154	1,112	130	122
Current Service Cost	24	22	3	3
Employees' Contributions	5	5	–	–
Interest Cost	58	56	7	6
Benefits Paid	(55)	(52)	(4)	(3)
Actuarial Loss (Gain)	62	11	(4)	(1)
Plan Amendments	–	–	16	3
Balance, End of Year	1,248	1,154	148	130
Fair Value of Plan Assets				
Balance, Beginning of Year	1,257	1,139	–	–
Actual Return on Plan Assets	74	159	–	–
Employer's Contributions	12	6	4	3
Employees' Contributions	5	5	–	–
Benefits Paid	(55)	(52)	(4)	(3)
Balance, End of Year	1,293	1,257	–	–
Funded Status – Plan Surplus (Deficit)	45	103	(148)	(130)
Unamortized Net Actuarial Loss	92	36	25	31
Unamortized Past Service Costs	35	44	19	3
Unamortized Transitional Obligation (Asset)	(89)	(120)	21	24
Accrued Benefit Asset (Liability)	83	63	(83)	(72)

Included in pension plans are the following amounts in respect of an unfunded supplemental pension plan.

(in millions of dollars)	Supplemental Pension Plan	
	2007	2006
Fair Value of Plan Assets	–	
Accrued Benefit Obligation	31	30
Funded Status – Plan Deficit	31	30

The most recent actuarial valuation for funding purposes was done 31 December 2007, and the next regularly scheduled valuation will be no later than 31 December 2010.

The plan assets and the accrued benefit obligation were measured for accounting purposes as at 31 December 2007. In performi this measurement, the following assumptions were adopted:

	2007	
Accrued Benefit Obligation:		
Discount Rate	5.25%	
Rate of Compensation Increase	3.00%	
Benefit Costs:		
Discount Rate	5.00%	
Rate of Compensation Increase	2.50%	
Long-Term Rate of Return on Plan Assets	5.50%	
Average Remaining Service Period for Pension Plans	10 years	
Average Remaining Service Period for Other Post-employment Benefits	12 years	

An 8.3% (2006 – 8.9%) increase in health care costs was assumed for 2007, with 0.4% (2006 – 0.4%) average decreases thereafter to an ultimate trend rate of 5.1% which is expected to be achieved by 2015.

The following table shows the impact of changes in the assumptions.

(in millions of dollars)	Increase (Decrease) in Accrued Benefit Obligation	Increase (Decrease) in Net Benefit Cost
0.5% Increase/Decrease in Discount Rate		
0.5% Increase/Decrease in Rate of Compensation Increase	14/(14	
0.5% Increase/Decrease in Long-Term Rate of Return on Plan Assets		
1.00% Increase/Decrease in Health Care Cost Trend Rates		

CMHC's annual net benefit plan costs are as follows:

(in millions of dollars)	Pension Plans			Other Post-Employment Benefits		
	2007	2006	2005	2007	2006	2005
Costs Incurred During the Year						
Current Service Cost, Net of Employees' Contributions	**24**	22	18	**3**	3	2
Interest Cost	**58**	56	56	**7**	6	6
Actual Return on Plan Assets	**(74)**	(159)	(137)	**–**	–	–
Actuarial (Gain) Loss on Accrued Benefit Obligation	**62**	11	100	**(4)**	(1)	19
Plan Amendments	**–**	–	–	**16**	3	–
Total Costs before Adjustments	**70**	(70)	37	**22**	11	27
Adjustments to Recognize the Long-term Nature of Employee Future Benefit Costs						
Difference between Expected and Actual Return on Plan Assets	**6**	98	78	**–**	–	–
Difference between Actuarial (Gain) Loss Recognized and Actual Actuarial (Gain) Loss on Accrued Benefit Obligation	**(62)**	(11)	(100)	**6**	3	(18)
Amortization of Past Service Costs	**9**	9	9	**–**	–	–
Amortization of the Transitional Obligation (Asset)	**(30)**	(30)	(30)	**3**	3	3
Plan Amendments	**–**	–	–	**(16)**	(3)	–
Total Adjustments	**(77)**	66	(43)	**(7)**	3	(15)
Net Benefit Plan Cost (Revenue) Recognized	**(7)**	(4)	(6)	**15**	14	12

Information on the defined benefit pension plan assets is as follows:

Category of Plan Assets	Percentage of Fair Value of Total Plan Assets	
	2007	2006
Short-term Investments[1]	**1.19%**	1.35%
Bonds and Debentures[2]	**23.19%**	20.08%
Equities	**61.01%**	64.64%
Real Return Securities[3]	**2.51%**	4.24%
Real Estate	**12.10%**	9.69%
Total	**100.00%**	100.00%

1 Includes $8 million (2006 – nil) in its related parties.

2 Includes $29 million (2006 – $17 million) in CMHC and $57 million (2006 – $62 million) in its related parties.

3 Includes $32 million (2006 – $33 million) in CMHC related parties.

The interest paid by CMHC to the pension plan amounted to $1 million in 2007 (2006 – $1 million, 2005 – $1 million). In 2007, there was a net charge in the amount of $3 million (2006 – $3 million, 2005 – $4 million) from CMHC to the pension plans for administrative services.

19. SEGMENTED INFORMATION

As described in Note 1, the consolidated financial results include the accounts of CMHC's four activities (Insurance, Securitization, Housing Programs and Lending Activity), each of which provides different programs in support of CMHC's objectives and the Canada Housing Trust. The financial results of each activity are determined using the accounting policies described in Note 2. The Lending Activity includes certain corporate items that are not allocated to each activity. The Housing Program Activity includes reimbursements to the Lending Activity as described in Note 12. These reimbursements are not eliminated in the table below.

(in millions of dollars)	Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Elimination of Inter-Segment Items		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
REVENUES														
Interest Income from NHA MBS	–	–	–	–	–	–	–	–	3,793	2,860	–	–	3,793	
Interest Income from Investment Securities	633	674	21	19	–	–	102	66	906	539	(46)	(26	1,616	
Interest Earned on Loans and Investments in Housing Programs	–	–	–	–	–	–	756	799	–	–	–		756	
Gains (Losses) from Financial Instruments Designated at Fair Value	4	–	–	–	–	–	(20)	–	–	–	9	–	(7)	
Realized Gains (Losses) on Available for Sale Financial Instruments	89	–	3	–	–	–	–		–	–	–	–	92	
Premiums, Fees, Parliamentary Appropriations and Other Income	1,348	1,184	65	49	2,020	2,158	(3)	11	140	99	(74)	(54	3,496	
	2,074	1,858	89	68	2,020	2,158	835	876	4,839	3,498	(111)	(80	9,746	
EXPENSES														
Interest Expense	110	116	–	–	–	–	842	858	4,692	3,392	(46)	(26	5,598	
Operating Expenses	145	116	4	3	108	109	17	18	147	106	(74)	(54	347	
Housing Programs and Net Claims	315	209	–	–	1,912	2,049	–	–	–	–	–	–	2,227	
	570	441	4	3	2,020	2,158	859	876	4,839	3,498	(120)	(80	8,172	
Income Taxes	482	436	27	20	–	–	(5)	–	–	–	–		504	
NET INCOME	1,022	981	58	45	–	–	(19)	–	–	–	9		1,070	
ASSETS														
Investment in NHA MBS	–	–	–	–	–	–	–	–	96,023	76,599	–	–	96,023	
Investment Securities:		9,834		392				630	–	2,902	–	(816	–	
Designated at Fair Value	–	–	–	–	–	–	980	–	1,106	–	–	–	2,086	
Available for Sale	11,584	–	518	–	–	–	–	–	–	–	(1,379)		10,723	
Held to Maturity	69	–	–	–	–	–	–	–	–	–	–	–	69	
Loans and Investments in Housing Programs:	–	–	–	–	–	–	–	12,706	–	–	–		–	
Loans Designated at Fair Value	–	–	–	–	–	–	7,644	–	–	–	–	–	7,644	
Other Loans	–	–	–	–	–	–	3,624	–	–	–	–		3,624	
Investments in Housing Programs	–	–	–	–	–	–	1,073	–	–	–	–		1,073	
Other Assets	1,770	3,546	53	45	–	–	2,153	1,461	22,993	16,944	(43)	(25	26,926	
	13,423	13,380	571	437	–	–	15,474	14,797	120,122	96,445	(1,422)	(84	148,168	
LIABILITIES														
Canada Mortgage Bonds	–	–	–	–	–	–	–	–	119,098	95,483	(1,379)	(816	117,719	
Capital Market Borrowings	–	–	–	–	–	–	8,296	8,625	–	–	(1)	–	8,295	
Unearned Premiums and Fees	5,142	4,754	244	180	–	–	–	–	–	–	–	–	5,386	
Borrowing from the Government of Canada	–	–	–	–	–	–	4,446		–	–	–		4,446	
Other Liabilities	1,751	3,582	12	15	–	–	2,586	1,303	1,024	962	(45)	(25	5,328	
	6,893	8,336	256	195	–	–	15,328	14,629	120,122	96,445	(1,425)	(84	141,174	
EQUITY OF CANADA	6,530	5,044	315	242	–	–	146	168	–	–	3		6,994	

20. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. CMHC enters into transactions with certain of these entities in the normal course of business. These transactions are recorded at the exchange amount, which is the amount agreed to by the related parties. All material related party transactions are either disclosed below or in relevant notes.

a) In addition to the Investment Securities disclosed in Note 4, CMHC and CHT hold cash equivalents issued or guaranteed by the Government of Canada of $350 million (2006 – $52 million) and $1,266 million (2006 – $3,049 million) respectively. These cash equivalents resulted in investment income of $12 million (2006 – $13 million, 2005 – $12 million) for CMHC and $108 million (2006 – $60 million, 2005 – $45 million) for CHT. Accrued Interest Receivable on these cash equivalents is nil (2006 – nil) for CMHC and $4 million (2006 – $10 million) for CHT.

b) CMHC pays the Government of Canada fees in recognition of the Government's financial backing of the Insurance and Securitization Activities. The fees, which are recorded in Other Income, amounted to $5 million (2006 – $4 million, 2005 – $3 million) for Securitization and nil (2006 – nil, 2005 – nil) for the Insurance Activity. The fee for the Insurance Activity is nil because CMHC's Earnings Set Aside for Capitalization equal 100% of its target capital level calculated in accordance with guidelines set out by OSFI.

c) In exchange for real estate transferred to Canada Lands Company Limited in 1998 and 1999, CMHC holds notes receivable of $44 million (2006 – $44 million) including accrued interest at 7.35% due by 2014 recorded in Other Loans.

21. COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to $279 million at 31 December 2007 (2006 – $359 million) and are normally advanced within a two-year period.

b) Commitments outstanding for advances to mortgage insured assisted housing projects in financial difficulty amounted to $57 million at 31 December 2007 (2006 – $59 million) and are normally advanced within a ten-year period.

c) Total remaining contractual financial obligations for Housing Programs extend for periods up to 32 years (2006 – 33 years).

Estimated obligations are as follows:

(in millions of dollars)	2008	2009	2010	2011	2012	2013 and Thereafter
	1,786	1,696	1,666	1,651	1,634	17,841

d) In addition to the lines of credit disclosed in Note 7, CMHC has a $63 million (2006 – $62 million) letter of credit outstanding.

e) There are legal claims of $6 million (2006 – $12 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded.

22. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the 2007 financial statement presentation.

GLOSSARY

Financial Terms

Asset-backed commercial paper (ABCP): A type of corporate short-term debt with a term to maturity of no more than nine months, and generally less than 45 days. The notes are typically backed by financial assets such as trade receivables, auto and equipment loans, and mortgages.

Basel II: Basel II is the 1988 Basel Capital Accord with considerably more sophistication and wider reach. At a high level, Basel II aims to align the minimum regulatory capital of a bank with its financial and non-financial risk profile, while taking into account the effectiveness of the corresponding risk management practices. There are three mutually-reinforcing pillars: minimum capital requirements, supervisory review and market discipline.

Commercial paper: A type of corporate short-term borrowing with a term to maturity of up to one year.

Dynamic Financial Analysis (DFA): A systematic and holistic approach to financial modeling and sensitivity analysis for assets and liabilities that projects financial results under a variety of possible scenarios, showing how outcomes might be affected by changing business and economic conditions.

Hedging: A risk management strategy used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Loan-to-Value Ratio: The ratio of the loan to the appraised value, purchase price or other value ascribed to the property.

Securitization: The process of converting loans or other assets into financial securities which are sold into the capital markets, providing investors with an interest in the pool of loans or assets underlying the security.

Swap: A form of derivative, an interest rate swap is a contractual agreement between two parties to exchange a series of cash flows, generally exchanging fixed and floating rate interest payments based on a notional principal amount in a single currency. In the case of a currency swap, principal amounts and fixed and floating rate interest payments are exchanged in different currencies. Swaps are generally used to reduce or eliminate interest rate risk or foreign exchange risk.

CMHC Terms

Canada Mortgage Bond (CMB): A bond with a semi-annua coupon, at fixed or floating rate, that pays principal at maturity It is issued by the Canada Housing Trust (CHT)

Charrettes: These are workshops organized to explore important design and development issues in support sustainable communities and housing. They bring architects, energy simulation engineers and other community development groups or experts, to challenge the usual development process and to address the environmental, social and economic sustainability of development.

CMHC Affordable Housing Centre: CMHC's centre of excellence for information, guidance and other tools to facilitate the production of affordable housing by non-profit organization private sector proponents and others.

Core Housing Need Households: Households that occup housing that falls below any of the dwelling adequacy, suitabilit or affordability standards, and which would have to spend 30 per cent or more of their before-tax income to pay for the mea rent of alternative local market housing that meets a standards, are said to be in core housing need.

emili: An on-line automated mortgage insurance risk and appro system developed by CMHC. It provides virtually instantaneou assessment of mortgage loan insurance applications

Federal Co-operative Housing Stabilization Fund (FCHSF): FCHSF was established by an Indenture of Trust 1989. The main goals of the FCHSF are to: help pr against CMHC mortgage insurance wh experiencing temporary financial problems; pr viability of projects; provide assistance by way projects; and extend assistance to all eligible without discrimination to the extent funds are the Trust.

Housing Quality Initiative (HQI): CMHC deliv training sessions to selected First Nations on client c property management, home maintenance, arrears ma indoor air quality and other topics. The initiative also Aboriginal trainers to deliver the sessions on a continuing b

Multi-seller Pool Structure. pools of residential mortgages issued by Appr current pool structure calls for one Approved Lend each individual pool. If feasible, future pool structure may a for more than one Approved Lender (multiple sellers) to back the same individual pool

***National Housing Act* Mortgage-Backed Securities (NHA MBS):** A security which represents an undivided interest in a pool of residential mortgages insured under the NHA and which has the full guarantee of the Government of Canada. The principal and interest paid by borrowers on the mortgages in an NHA MBS pool are paid to investors monthly. These payments can vary from month to month if, for example, borrowers make unscheduled payments, such as advance payments of principal on a mortgage. Securities under the NHA MBS program are issued by Approved Issuers (primarily lending institutions).

Renovation Programs: Programs that help low-income households, landlords, persons with disabilities and Aboriginal people bring their homes up to minimum health and safety standards. CMHC's suite of renovation programs include:

Residential Rehabilitation and Assistance Program (RRAP): A program which provides financial assistance to low-income households who live on- and off-reserve to enable them to repair their homes, as well as to assist landlords to repair rental dwellings.

Shelter Enhancement Program (SEP): A program which provides financial assistance to repair; rehabilitate and improve existing shelters, both on- and off-reserve, for women, children and youth who are victims of family violence. The program also assists in the acquisition or construction of new shelters and second stage housing.

Emergency Repair Program (ERP): A program which provides financial assistance to low-income homeowners or occupants in rural areas to undertake emergency repairs required for the continued safe occupancy of their house.

Home Adaptations for Seniors' Independence (HASI): A program which provides financial assistance to low-income seniors to carry out minor adaptations to assist them to live independently in their own homes.

DEFINITIONS OF SELECT CMHC PERFORMANCE MEASURES BY OBJECTIVE

Measure	Definition
OBJECTIVE 1: HELP CANADIANS IN NEED	
Housing program expenses	Expenses primarily related to social housing prog… Program, Non-Profit Housing Program, Rent Supplement P… Program, the Urban Native Hous… commitments under these programs … on-reserve. Also includes expenditures … programs, and CMHC's research and export promotion acti…
Affordable housing units facilitated by CMHC's Affordable Housing Centre	Affordable housing units for which project spe… Proposal Development Funding, and/or CMHC's Affordable … advice in the development of these …
Affordable housing units facilitated through CMHC mortgage loan insurance flexibilities	CMHC mortgage loan insurance is prov… homeownership and rental units that meet … mortgage loan insurance premium may …
Commitment to Housing Internship Initiative for First Nations and Inuit Youth (HIIFNY)	This initiative involves CMHC funding for … Aboriginal youth between the ages of … related work or on-the-job trai…
% of delivery of on-reserve programs and services through First Nation or Aboriginal organizations	% of CMHC Aboriginal housing programs and ser… organizations. Calculated as the average of the … a) % of RRAP accounts delivered by Aborig… b) % of Section 95 commitment inspections and Ph… the Native Inspection Services Initiative based … c) % of Aboriginal Capacity Development ser… providers.
Homeowner units insured or facilitated through the adoption of market-based housing finance tools	Homeownership units where CMHC can demo… financing is required, homeownership loans are … Loan Guarantee (MLG), however there may … been provided without loa…
OBJECTIVE 2: FACILITATE ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING FOR ALL CANADIANS	
Total mortgage loan insurance approved in units	…
Operating expense ratio for mortgage loan insurance (%)	The ratio of operating expenses t… (Operating expenses) / (earned premiums + …
Annual securities guaranteed	Mortgage-Backed Securities (MB… issued for the year.
Operating expense ratio for securitization (%)	The ratio of operating expenses to … (Operating expenses + Canada … (guarantee fees earned + application and … fees earned from Canada Housing Trusts) *100
Forecast accuracy of housing starts (%)	The difference expressed as % between CMHC's … annua…
Ranking of housing starts forecast accuracy among forecasters	Ranking of the accuracy of CMHC's annual hou… forecasters where 1 is the most accurate …
OBJECTIVE 3: ENSURE THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD	
Revenue from selling CMHC's expertise abroad	…

CMHC BOARD OF DIRECTORS

(as at December 31, 2007)

Dino Chiesa, *Chairperson of the Board*
Principal, Chiesa Group, Toronto, ON

Mr. Chiesa was appointed Chairperson of the Board of Directors in March 2005. He is Principal, Chiesa Group commercial property investors, and Vice-Chair of the Board of Trustees of the Canadian Apartment Properties Real Estate Investment Trust (CAP REIT). Prior to this, he was the Assistant Deputy Minister of Ontario's Ministry of Municipal Affairs and Housing, CEO of the Ontario Housing Corporation and Ontario Mortgage Corporation, and was an employee of CMHC from 1975 to 1987. Mr. Chiesa has been a member of the Board since June 2001.

Karen Kinsley, CA
President and Chief Executive Officer, CMHC, Ottawa, ON

Ms. Kinsley is a chartered accountant and joined CMHC in 1987. She has held a variety of positions in management, including Chief Financial Officer, Vice-President, Corporate Services, and Vice-President, Insurance and Securitization. She was appointed President and Chief Executive Officer in June 2003.

Harold Calla, CGA, CAFM
Chair, First Nations Financial Management Board, Vancouver, BC

Mr. Calla serves as Chairperson of the First Nations Financial Management Board and as a member of the First Nations Advisory Committee on Taxation. He also serves as Director on the Board of Partnerships British Columbia. He was appointed to the Board in June 2005.

Hugh Heron
President, Heathwood Homes and Heron Homes, Schomberg, ON

Mr. Heron is Principal of the Heron Group of Companies and President, Heathwood Homes and Heron Homes. He is a past president of both the Greater Toronto and Ontario Home Builders' Association. Mr. Heron is a frequent spokesperson and a regular contributor to numerous industry publications. He was appointed to the Board in June 2001.

Sophie Joncas, CA
Chartered Accountant, Longueuil, QC

Ms. Joncas is a chartered accountant in private practice. She is a member of the continuing education committee of the Ordre des comptables agréés du Québec (OCAQ). She has also developed and taught courses on governance and on the role of the audit committee for the OCAQ. She was appointed to the Board in August 2001.

E. Anne MacDonald, BA, LLB
Lawyer, Pictou, NS

Mrs. MacDonald has operated a general law practice in the Town of Pictou since 1979. She was the solicitor for the Town of Pictou for 25 years and assisted the town in acquiring and managing its real estate properties. She actively participates in and supports numerous community organizations and charities. She was appointed to the Board in September 2007.

James A. Millar
Associate, Sussex Circle, Ottawa, ON

Mr. Millar, a career public servant, worked in several government departments, including the Privy Council Office, Manpower and Immigration, the Public Service Commission, and Transport Canada. He joined CMHC in 1998. He retired from CMHC in 2004 as Vice-President, Risk Management and Communications. He was appointed to the Board in April 2007.

Gary P. Mooney
President and Chief Executive Officer, Fidelity National Financial, Mississauga, ON

Mr. Mooney is President and Chief Executive Officer of Fidelity National Financial, a Mississauga-based title insurance company. He is also a senior partner with the law firm Anderson, Sinclair. He was appointed to the Board in June 2005.

Joel Teal
President, Dundee Developments/ Homes by Dundee, Saskatoon, SK

Mr. Teal is President, Dundee Developments/Homes by Dundee, and is Chair of the Board of the Saskatchewan Blue Cross. He began his career with CMHC, where he held several management positions in Saskatoon, Regina, Hamilton and Ottawa. He previously served as a member of CMHC's Board of Directors from 1985 to 1991. He was appointed to the Board in October 2006.

Alexander Werzberger
President, Traklin Group, Montreal, QC

Mr. Werzberger is by profession a builder and land developer. He is President of the Traklin Group and has built numerous residential buildings and commercial facilities. He has served on the Board of Directors of various organizations, including the National Executive Committee of the Canadian Jewish Congress and the Association provinciale des constructeurs d'habitations du Québec. He was appointed to the Board in April 2005.

CMHC MANAGEMENT

Karen Kinsley
President and Chief Executive Officer

NATIONAL OFFICE

Anthea English
Vice-President, Corporate Services and Chief Financial Officer

Mark McInnis
Vice-President, Insurance Underwriting, Servicing and Policy

Sharon Matthews
Vice-President, Assisted Housing

Pierre Serré
Vice-President, Insurance Product and Business Development

Douglas Stewart
Vice-President, Policy and Planning

Gail Tolley
Vice-President, Human Resources

Charles Chenard
Executive Director, Corporate Marketing

Pierre David
Executive Director, CMHC International

Anne Dawson
Executive Director, Communications

Gilles Proulx
Executive Director, Risk Management and Investments

Serge Gaudet
Director, Audit and Evaluation Services

Douglas Tyler
General Counsel

Luc Fournier
Corporate Secretary

REGIONAL BUSINESS CENTRES

Carolyn Kavanagh
General Manager, Atlantic Business Centre

Sylvie Crispo
General Manager, Quebec Business Centre

Peter Friedmann
General Manager, Ontario Business Centre, and Managing Director, Securitization

Trevor Gloyn
General Manager, Prairie and Territories Business Centre

Nelson Merizzi
General Manager, British Columbia Business Centre

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Northern Housing Centre
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NHA Mortgage-Backed Securities
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(416) 250-2700

Market Analysis Housing Market Information
http://www.cmhc-schl.gc.ca/en/hoficlincl/homain/index.cfm
market_analysis_centre@cmhc.ca
1-800-668-2642

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The Möbius loop is the symbol used for claims of recyclable or recycled content. A circle with a dark background and with arrows indicates recycled content, whereas a light symbol with white arrows on a white background indicates that the material is recyclable.

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CANADA MORTGAGE AND HOUSING CORPORATION

ANNUAL REPORT 08

ENDURING COMMITMENT
PROVEN RESULTS

Canada

CMHC SCHL

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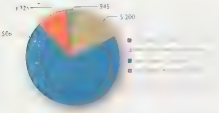
...Canada Mortgage and Housing Corporation ... people with disabilities. If you would like ... or call ...

The 2008 Annual Report reports on performance against the 2008-2012 Summary of the Corporate Plan. To obtain a copy, visit www.cmhc.ca or call 1-800-668-2642.

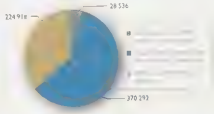
Business Highlights

As Canada's national housing agency, we provide housing assistance for Canadians in need through a range of effective programs

Households Served Through New Commitments



Households Served Through Existing Agreements



As one of Canada's largest financial institutions, we help ensure Canadians can access lower-cost mortgage financing

In 2008, insured loans in all product lines representing more than **900,000** units, were approved. **42%** of approvals of rental and high ratio homeowner units were in less-served markets.

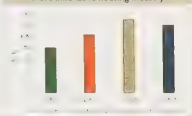
NHA MBS – a key source of funds for financial institutions



Our commitment to sustainable housing and communities and to supporting a resilient housing industry leads to Canada being among the best housed nations in the world

CMHC is a leader in housing information and research. Consumers and the housing industry can rely on us for reliable, unbiased information. Over **1.6 million** copies of our research products were distributed in 2008. We support a vision of healthy and sustainable housing. To create practical demonstrations of our vision, **5 EQuilibrium™** homes are now open across the country, showcasing sustainable design features.

Exports lead to a stronger and more innovative housing industry



Financial Highlights

Financial performance	2006 Actual	2007 Actual	2008 Actual	2009 Plan
Total Assets ($M)	124,218	148,168	203,512	345,318
Total Liabilities ($M)	118,764	141,174	195,342	335,484
Total Equity of Canada ($M)	5,454	6,994	8,170	9,834
Revenues ($M)	8,378	9,320	11,985	15,966
Expenses ($M)	6,896	7,746	9,566	14,061
Income Tax ($M)	456	504	641	552
Net Income ($M)	1,026	1,070	1,778[1]	1,353
Staff-Years	1,877	1,888	1,945	2,030

[1] Includes $.5 million ...

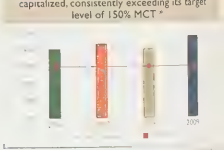
Financial prudence and strategic planning ensure we remain in sound financial health, and are able to continue our mission of promoting housing quality, affordability and choice for all Canadians

Housing Program Expenses



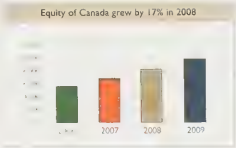
* Includes $300M funding for the First Nations Market Housing Fund

CMHC's insurance business is well capitalized, consistently exceeding its target level of 150% MCT *

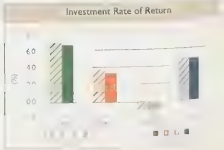


* MCT is the Minimum Capital Test for mortgage insurance companies ... by the Office of the Superintendent of Financial Institutions

Equity of Canada grew by 17% in 2008



Investment Rate of Return



Prudent investment principles and strategies adopted by CMHC ensured that investment portfolios in 2008 were only slightly impacted when compared to the level of stress in the financial markets over the same period

About CMHC

For over 60 years, Canada Mortgage and Housing Corporation has been Canada's national housing agency. Established as a Crown corporation in 1946 by the federal government to address post-war housing shortages, we have since helped generations of Canadians access affordable housing or to purchase their own homes, and we have contributed to the development of a strong housing sector.

Our mission

The promotion of housing quality, affordability and choice for all Canadians.

APR 06 2010

Our objectives

1. Help Canadians in need
2. Facilitate access to more affordable, better quality housing for all Canadians
3. Ensure the Canadian housing system remains one of the best in the world



Our programs, products and services

Assisted housing for low income Canadians and Aboriginal Canadians on reserve

- Ongoing annual subsidies for social housing administered under existing long-term agreements
- On-Reserve Non-Profit Rental Housing Program to help First Nation families access affordable, quality housing
- Renovation programs for low income Canadians to bring their homes up to minimum health and safety standards
- Funding under the Affordable Housing Initiative (AHI) to develop more affordable housing
- Advice and information to affordable housing sponsors through CMHC's Affordable Housing Centre
- Direct Lending for federally-assisted housing projects to lower the cost of public subsidies

Housing finance for all Canadians

- A wide range of mortgage loan insurance (MLI) products for homeownership which, by protecting financial institutions from losses in the event of default, helps borrowers obtain financing at competitive interest rates. These products include:
  - CMHC Purchase
  - CMHC Refinance
  - CMHC Green Home
  - CMHC Improvement
  - CMHC On-Reserve
- Mortgage insurance for loans for rental properties, including nursing and retirement homes
- *National Housing Act* Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bonds guarantee programs, and the Insured Mortgage Purchase Program to enhance the supply of low-cost funds for mortgage lending

Research and information transfer to improve housing quality and choice

- A wide range of housing related publications, including *Research Highlights* and *About Your House* fact sheets
- Research grants and awards to foster excellence in housing research
- Market analysis products and housing outlook conferences to provide reliable market information to the housing sector
- Demonstration initiatives to promote sustainable housing and development

Promotion of our housing system and industry internationally

- Support services to help the Canadian housing industry to enhance their export business by diversifying into new markets
- Consulting services to countries that wish to improve their housing systems in order to enhance access to affordable housing
- International relations services to represent the Government of Canada on housing matters both at home and internationally

For more information consult our website at: **www.cmhc.ca.**

Our values

We lead by example. We honour our obligations and are committed to:

Serving the public interest

As stewards of the public trust we serve with fairness, impartiality and objectivity. All our activities, including those that are commercial in nature, are carried out in support of our public policy objectives. Our actions are inspired by a respect for human dignity and the value of every person.

Achieving business excellence

We exercise the highest standards of competence, trustworthiness and prudence in conducting our business relationships and in managing the financial, physical and human resources entrusted in our care. We encourage learning, innovation, and personal initiative to continuously improve the way we do business and to achieve the best results for the Canadian public.

Building a workplace community

We practice mutual respect and honesty in our working relationships. We help each other achieve the goals of the team and the organization, and to maintain a healthy balance between our CMHC work and other parts of our lives. We willingly explain our actions so that we may hold ourselves and each other accountable for living these values in the workplace.

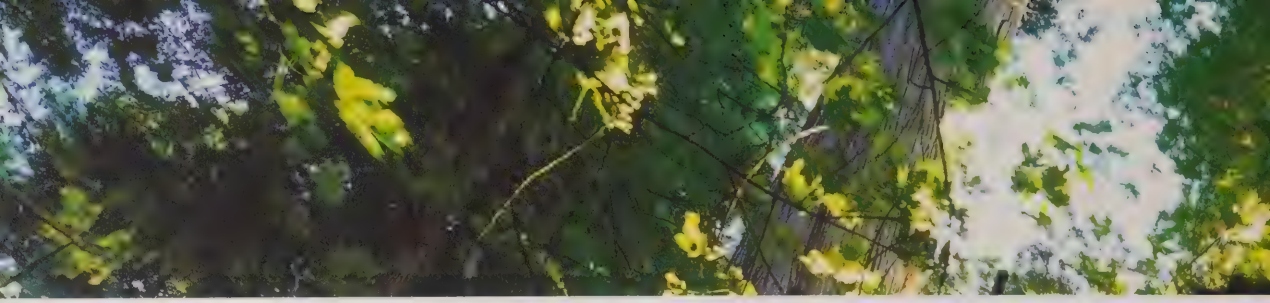
Our structure

A work force of approximately 2,000 employees provides service to Canadians throughout the country. CMHC's national office is located in Ottawa and our five regional business centres are in Halifax, Montreal, Toronto, Calgary and Vancouver. Points-of-service and corporate representatives provide access to CMHC services to Canadians in smaller centres and rural areas. Refer to CMHC's website, **www.cmhc.ca**, for more information. For a list of CMHC management, see page 147.

CMHC also provides management, advisory and other services to the Canada Housing Trust (CHT), to the First Nations Market Housing Fund (FNMHF) and to the Government of Canada with respect to administering Granville Island. While the financial results of the CHT are consolidated with CMHC's financial statements, the financial statements of the other two organizations are not. For further information, see Glossary.



MESSAGES FROM THE CHAIRPERSON THE PRESIDENT





MESSAGE FROM THE **CHAIRPERSON**

On behalf of CMHC's Board of Directors, I am proud to present CMHC's 2008 Annual Report.

2008 has proven to be a challenging year. The global liquidity crisis worsened with financial institutions in many countries experiencing severe hardship. Canada can be proud that it is able to weather the storm better than most. In the midst of the ensuing global recession, Canadians can take comfort that our financial institutions remain strong.

CMHC's role in supporting the health of our housing finance system and our commitment to the overall well-being of the housing sector has and will continue to help Canada respond to challenging economic times ahead.

In 2008, Canada's housing finance system was rated by the International Monetary Fund as one of the healthiest and most stable

In 2008, we continued to put federal housing dollars to work, helping to house low income Canadians and supported efforts to improve the housing conditions of Aboriginal Canadians. We also helped thousands of Canadians to access mortgage financing at a lower cost so they could achieve their dream of homeownership and facilitated the development of rental housing, including retirement and nursing homes. Our securitization products assisted mortgage lending institutions to access low-cost funds for mortgage lending, particularly in these tough economic times. And, as we have throughout CMHC's history, we continued to undertake research and information transfer activities that support decision making by consumers, the housing industry and government.

CMHC's continued success can be attributed to our committed workforce as well as to the Board's oversight of the Corporation's directions and performance. As a member of the Board since 2001, I can attest to continued improvement in our governance practices so that Canadians can be assured that their tax dollars are well managed and



that CMHC's activities remain relevant. In recent
to assess risks and to review achievement of
ensures that performance and resources

Another way we practice goo
that are important to Canadians. Twice a year, th
order to maintain a dialogue with housing
First Nation members, local government
in the provision of housing. This year, we
hand how solutions were created to ado
forward to continuing to meet Canadians in the
public meeting to further share informati
opportunity for more Canadians to present

This year, the Board welcomed two new membe
and bid farewell to Hugh Heron, Alexander Werz
for their outstanding commitment and contributi

The Board looks forward to continuing to work
Diane Finley, in the year to come. I would also like t
Karen Kinsley on her reappointment as Presid
three year term. Ms. Kinsley's leadership wa
Network™ who recognized her as one of C
My heartfelt gratitude is also extended
for your enduring commitment to making CMHC

Together, we remain devoted to respond



Dino Chiesa
Chairperson of the Board



MESSAGE FROM THE **PRESIDENT**

For more than 60 years, CMHC has had an enduring commitment to housing in Canada. We have played a major role in the evolution of Canada's housing markets, never losing sight that our mission is to help Canadians access affordable, high quality housing. As we face the challenges brought on by the global economic downturn, our experience and commitment will continue to guide us.

The role that the housing sector plays as an important source of economic activity was recognized in Canada's Economic Action Plan, the federal government's 2009 Budget. At all times, but particularly during challenging economic times, actions must be taken to ensure that the full range of housing needs can be met through both public and private efforts. CMHC's role in implementing housing stimulus measures will improve housing across Canada and support job creation. These investments will also help ensure that housing continues to be an engine of economic growth and prosperity in Canada.

Because of our commitment to helping Canadians in need, many low income households can access suitable and safe housing that they can afford

Improving living conditions for Canadians in need

Over time, our host of programs and partnerships are contributing to a better housed Canada. From 2001 to 2006, we saw the incidence of core housing need decrease from 13.7% to 12.7%, meaning that a greater proportion of Canadian households are now able to access sound and affordable housing that meets their needs.

For those Canadians who need help to access affordable housing, CMHC again provided $1.7 billion in 2008 to assist over 623,000 households who live in social housing. While this housing has provided a suitable home for many low income Canadians, a large number of these homes are aging and require significant repair and upgrading. To ensure that this housing continues to benefit people in need, we are working with our partners to renew and revitalize this national asset.



In 2008, we also worked with our partner
by some 5,200 units through the Affordable
under our suite of renovation programs
them make repairs to their homes bc

While housing conditions in Canada are
in many First Nation communities remain
population. The incidence of housing
off reserve. The challenges facing First
construction costs in remote areas,
market on reserve. Innovative
change on reserve.

CMHC works closely with Ind
Nations in delivering housing
funding for some 945 new non-prof
some 28,500 existing units

We also worked at the individual,
capacity and have been a ca
conditions for those First Nation
homeownership. We were instrument
Housing Fund which began operation
private lenders providing loans for the
or on settlement lands. The Fund wil
type of home they desire based o
tastes. It will also help increase the hc
equity and generate wealth.

Supporting access to affordable, quality housing for all Canadians

Because so many Canadians rely or
CMHC works to ensure a well-functio
and financial crisis of 2008 spread to
more important.

In 2008, Canada's housing finance syst
as one of the healthiest and most st
liquidity and credit issues. CMHC's securitiz
contributed to the strength and stab



This year, CMHC guaranteed the timely payment of interest and principal on almost $104.6 billion in mortgage-related securities. Meeting this target and introducing enhancements to our programs helped Canadian lenders to provide mortgage financing at competitive rates to Canadian homeowners.

The Government of Canada announced last fall that CMHC would be called upon to fulfill a special role in addressing the credit crunch by purchasing $25 billion in insured mortgage pools from lenders under the Insured Mortgage Purchase Program (IMPP) in 2008, and another $50 billion in 2009. Canada's Economic Action Plan – Budget 2009 further enhanced the program by up to another $50 billion. This brings the total potential purchase up to $125 billion.

Because of our commitment to insured financing in all parts of Canada, Canadians can obtain financing for the home of their choice at competitive rates

CMHC also contributes to the stability of the housing finance system through our mortgage loan insurance products which protect lenders against financial losses in the event of borrower default. With CMHC mortgage loan insurance, homebuyers in all parts of Canada can purchase a home with as little as 5% down and can obtain competitive interest rates which are comparable to those typically reserved for homebuyers with a down payment of 20% or more.

Our record demonstrates our commitment to sound risk management and underwriting practices and to our public policy purpose. In 2008, insured loans in all product lines representing more than 900,000 units were approved. Forty-two per cent (42%) of rental and high ratio homeowner approvals were in less-served markets and/or in support of specific government priorities. This includes housing on reserve, in rural areas and in small towns. We are also Canada's only provider of mortgage loan insurance for large rental projects, nursing and retirement homes. Our products also enable lenders to offer greater financing flexibilities and cost savings to proponents of affordable housing as well as to those making energy-efficient housing choices.

Because of our commitment to housing research and analysis, consumers, industry and public sector have a reliable, objective source of housing information

CMHC has always employed prudent and responsible underwriting practices, assessing borrowers on their ability to repay and manage their debt. We manage our mortgage insurance business at no cost to Canadian taxpayers, through sound business practices that ensure commercial viability without having to rely on the Government of Canada for support, even in less favourable economic times. CMHC ensures it has sufficient reserves and is well capitalized in the event of claims arising from adverse economic conditions.

We will continue to work with our Approved Lenders and others in the industry to ensure that Canada's housing finance system remains among the best in the world.

At CMHC, we also believe that objective, reliable information on housing is important to sustaining a healthy and innovative housing market, particularly in turbulent times.



As Canada's national housing agency, CMHC is one of the most comprehensive source of housing information and expertise in the country. In 2008, we delivered information products and seminars to hundreds of thousands of Canadians [illegible] housing market forecasters in terms of accuracy, and received high usefulness ratin[illegible] market analysis publications (93%) and our Housing Outlook Conference [illegible]

Ensuring the Canadian housing system remains among the best in the world

Although there were many immediate concerns in 2008, we also continued to keep our eye on longer term challenges. To ensure our housing system remain[illegible] the world, we investigate technologies and designs that will create vibrant and [illegible] communities for years to come. In 2008, another four demonstration [illegible] for viewing under our EQuiliBrium[illegible] more are scheduled to open in 2009. We will continue to demonstrate practical ways to implement sustainable housing technologies and community designs.

[illegible] commitment t[illegible] sustainable hous[illegible] and communities Canada will rem[illegible] among the best housed nation.

While foreign housing markets experienced significant downturns, our work with Canadian companies exporting housing products or services continued to show results. In 2008, CMHC helped facilitate a high of $129 million in sales by our key clients. Meanwhile, the stability of the Canadian housing finance system attracted increasing attention in the midst of world market turmoil.

As we strive to meet our varied objectives, we recognize that our e[illegible] valuable asset. It is through their efforts that we were able to successfully meet nearly all of our performance targets for the past year. To ensure our continued success in serving Canadians, our human resource policies are designed to attract and retain a pool of talented people committed to a[illegible] by MediaCorp as one of the National Capital Region's Top 25 employers and was selected as one of Canada's best employers for diversity.

Because of [illegible] commitment to [illegible] employees, CMHC is an organizat[illegible] prepared to m[illegible] future challeng[illegible]

Over the years, we have touched the lives of many Canadians in meaningful ways. I urge you to review in more detail the success stories we have chosen to highlight [illegible] this year's annual report. I am proud of our ability to make a [illegible] CMHC's Chairperson, Dino Chiesa, the Board of Directors, and M[illegible] all CMHC employees for their dedication in 2008. I look forward to our co[illegible] in 2009 to create innovative and effective ways of continuing to help Canadians [illegible] wide variety of quality, environmentally sustainable ar[illegible]



Karen Kinsley, CA
President and Chief Executive Officer



Although our business volumes and financial results help tell part of the story of our success as a Crown corporation, we take the greatest pride in how we touch the lives of millions of Canadians, from all walks of life, each and every year. The following pages provide a brief snapshot of some of our successes over the past year. They are a testament, often in the words of our clients, to the impact our efforts have had in helping to create a better future in housing for Canadians.



PROVEN RESULTS
SUCCESS STORIES

Our success stories:

- Advanc
- Wo kir on rese
- Suppo loar in
- Con trib
- Bein g a inf o rmat
- Brir gir
- Les ons a Canad

Advancing affordable housing solutions

Across Canada, local organizations are at the heart of efforts to create more affordable housing in their communities. CMHC is there to help with our housing expertise, our information tools as well as financial support to cover some of the upfront costs related to getting housing project proposals started. Through our Affordable Housing Centre, a team of experts, with first-hand knowledge of what it takes to get an affordable housing project off the ground, is available to help. They help determine whether a housing project can be financially viable, they identify resources and other potential partners, and they share information on what has worked in other communities. CMHC may also provide Seed Funding or Proposal Development Funding to defray some of the initial costs associated with starting an affordable housing project. (For descriptions of these programs, see Glossary)

These are just a few examples of projects that have benefited from CMHC's expertise and financial help:



"Independence Place is not just an address, a place to live. It has given me back a big part of my life. I'm determined not to let my disability define my future, and Independence Place has given me a future I look forward to every day when I wake up in the morning in my new home."

Resident, Independence Place

Independence Place is the first affordable housing project for people with physical disabilities in Summerside, Prince Edward Island. Built by Scott and Corinna Costain, a husband and wife development team, Independence Place offers homes which are not only affordable, but also accessible to people with physical disabilities.



"It became essential to offer a residence such as this for our seniors. No longer will they have to leave their community to find housing that meets their needs. The residents of these units can now pursue their lives peacefully at Malartic and the community will benefit from their presence, their wisdom and their life experience."

Marie-Paule Ferron, Municipal Councillor

Place des Argousiers is providing much needed affordable housing for 55 senior households in Malartic, located in northern Quebec.

More information on these projects and affordable housing resources can be found at CMHC's website at **www.cmhc.ca/affordablehousing**

Working together to expand homeownership on reserve

Since May 5, 2008, First Nations seeking to improve homeownership and housing markets on reserve h an important tool at hand: the First Nations Marke Housing Fund (FNMHF). The Fund began oper with a $300 million contribution from the Government of Canada which will allow it to act as a partial backstop for private financing of homes on r and on settlement lands.

Due to the inability of lenders to register and mortgages on reserve lands under the *In* financing for private homeownership on rese historically only been available on a limited ba with a Ministerial Loan Guarantee from the M Indian Affairs and Northern Development, o limited private lending programs.



Seated left to right: John Beaucage, the Honourable Monte Solberg, the Honourable Chuck Strahl. At podium: Rick Simon, Regional Chief, Assembly of First Nations

re hopeful that the success of the First Nations ket Housing Fund will demonstrate the value f investing in an on-reserve housing market and omoting homeownership. Our emerging middle lass needs access to the same quality of life that other Canadians take for granted. Good housing for a First Nation family isn't just built on a foundation – it is a foundation that contributes to the health and self-sufficiency of our community members."

nd Council Chief John Beaucage, nan, FNMHF

Supporting changing needs through mortgage loan insurance

Supporting the increasing demand for energy-efficient homes

Since 2005, CMHC mortgage loan insurance has been used to help finance energy-efficient housing. Under the CMHC Green Home product, homeowners or rental property investors financing 1 to 4 unit energy-efficient properties or renovations may qualify for refunds of 10% of the mortgage loan insurance premium on their loans.

Borrowers have benefited from refunds averaging $572 with this product. CMHC Green Home also allows borrowers the option of extending the amortization period up to 35 years without the customary surcharge. Paying over a longer period of time makes sense when energy-efficient homes may cost a little more but, in the end, energy savings make up the difference.

To qualify, borrowers must purchase a home constructed under a CMHC recognized energy-efficient building program or that meets a certain energy rating as determined by Natural Resources Canada. Eligible programs include R-2000, Built Green™, Novoclimat™, ENERGY STAR for New Homes®, and Power Smart™. Renovations that are financed with CMHC insured loans leading to energy efficiencies are also eligible under the product.

Supporting the housing needs of an aging population

CMHC mortgage loan insurance facilitates financing for affordable rental housing. An example of this can be found in the neighbourhood of Villeray in Montreal, Quebec. Seeing the need for an affordable retirement home for seniors, a well-established developer took steps to acquire and demolish an abandoned commercial property and to make way for the Résidence du Parc Jarry, a 160-unit retirement home for low to moderate income seniors. Because the project met CMHC's criteria in terms of affordable rent limits for the area, and units and common amenities are modest in design, CMHC came through with underwriting flexibilities which included reduced mortgage loan insurance premiums, a longer amortization period and a higher loan-to-value ratio to facilitate the financing of the project.



"Thanks to CMHC's underwriting flexibilities, we were able to make this project a reality and to offer a better quality of life in a secure and friendly environment to our fellow citizens."

Anthony Falvo, owner, Résidence du Parc Jarry

Contributing to a stable housing finance system

The popularity of the Canada Mortgage Bonds (CMB) and *NHA* Mortgage-Backed Securities (NHA MBS) programs continues to increase as the liquidity they causes lenders to securitize mortgages to raise funds. Despite challenging market conditions, $41.5 billion CMBs were successfully issued by the Canada Housing Trust in 2008. In addition, $6[illegible] billion of NHA MBS were issued. CMHC guarantees the timely payment of interest and principal on these securities, making them sound investments in the Canadian residential mortgage market.

An evaluation of the CMB program completed in 2008, before the global liquidity crisis, found that the program has benefited both financial institutions and homebuyers across Canada. It concluded that the CMB program played a stabilizing role in Canadian markets by providing a reliable and cost-effective source of funding for mortgages. This has been particularly important for smaller lenders who generally have fewer funding options available to them. This leads to increased competition in the housing finance industry.

In addition, savings realized by financial institutions participating in the CMB [illegible] to consumers. From 2001 to the end of 2006, $97.6 billion in CMBs were issued, accounting for 15% [illegible] through the CMB program was about 18 basis points or 0.18% less, on average, than the cost of their next lowest alternative source of long-term wholesale funding. This led to savings of up to $174 million per year being passed on to borrowers.

The evaluation findings were based on a period prior to the onset of the credit crunch. With the continuing credit crunch, CMBs have likely played an even greater role in the health of the financial sector during the past [illegible].

Because NHA MBS is a well-established CMHC program, when called upon by the Government of Canada, CMHC was able to use it to implement the Insured Mortgage Purchase Program in very [illegible].

"On Sept. 17, 2008, amid some of the most intense turmoil seen to date in financial markets, Canada Housing Trust achieved a key win by completing the world's only large government bond deal that day. The sale of $10 billion in CMBs through two tranches would be considered impressive in even the best of market conditions," says Harry Culham, head of Fixed Income, Currencies and Distribution at CIBC. *"That it launched while capital markets were seizing up over news of financial trouble with U.S. government-sponsored mortgage lenders, as well as a major bank and an insurer, makes its success all the more remarkable."*

"In conversations we had that week, investors expressed a very high level of confidence in the CMB program and the Canadian mortgage market," he says, pointing to favourable demand from CIBC's domestic and international investor clients. *"Getting deals done of that size in turbulent times is a reflection of the product's AAA rating, and the CMB program's reputation for quality. These attributes are key to the continuing success of the CMB program, and explain why CHT is able to get deals done."*

In the deal, CIBC was Lead of Leads on the largest tranche, an $8 billion five-year bond, and was Joint Lead on a second tranche, a $2 billion three-year bond. *"Partnering with CHT on this and its other CMB offerings has been very satisfying for us because of the broad benefits for investors, Canadian homebuyers, the housing industry and mortgage markets,"* adds Mr. Culham. *"CMHC can take pride in these outcomes."*

Being a catalyst for leading-edge research and information on housing

CMHC's long standing role in research and information transfer has served as a catalyst for improved market effectiveness, better housing quality and choice, and effective solutions to address issues such as affordability, distinct housing needs and increased sustainability.

In 2008, CMHC marked the 10th time that the Corporation gave out awards under its Housing Awards Program. Created in 1988, the biennial program showcases best practices that have helped to improve the quality, choice and affordability of housing for all Canadians, especially for seniors, young families, persons with disabilities, Aboriginal people, and youth.

This year, 16 winners were chosen under the theme of *Best Practices in Affordable Housing* for having advanced innovations in building practices, housing finance, neighbourhood development, and Aboriginal housing. Profiles of the winners are on CMHC's website. Here are just two:



Emilie Adin, Deputy Director of Planning, City of Langford, Robert Buchan, Clerk/Administrator, City of Langford, Dino Chiesa, Chairperson, Board of Directors, CMHC

City of Langford Affordable Housing Strategy

The City of Langford in British Columbia came together with industry and other stakeholders to develop a policy that is the backbone of their partnership to deliver market housing, subsidized ownership and rental housing. The policy promotes diverse options for housing and features inclusive zoning, visitability requirements and mandatory secondary suites. To date, through the City of Langford's Affordable Housing Strategy, over 50 families have been able to move into affordable rental housing or to purchase their own home.



Colin G. MacLeod, Chairperson, Board of Directors, Homegrown Homes, Donna Clarke, Administrator, Homegrown Homes, Dino Chiesa, Chairperson, Board of Directors, CMHC

Ingenuity in Action, Peterborough, Ontario

Homegrown Homes, the City of Peterborough, local businesses, non-profit organizations and volunteers have teamed up to manage or renovate surplus buildings and relocate donated homes onto surplus land for affordable rentals. Over the past 10 years, the partnership has successfully developed 11 projects in the city which, as of April 2008, have become home to 45 people. More people are expected to be helped thanks to community partnerships and continued support.

Bringing sustainable housing to the forefront

Through our EQuilibrium™ Sustainable Housing Demonstration Initiative, we are helping the housing industry to showcase more environmentally-friendly homes. EQ homes integrate proven energy-saving design and building practices while seeking to balance the home's energy use with on site renewable energy production capabilities.

Five of the 12 planned EQuilibrium™ projects are now open for viewing, including ÉcoTerra™ in Eastman, Quebec which opened in 2007.

While each EQuilibrium™ project is unique, EQ homes may feature:

- Healthy indoor environments
- Energy efficient construction, appliances and lighting
- Passive solar design, heating and cooling
- Use of natural light sources
- Water conservation and re-use
- Land and natural habitat conservation
- Renewable energy systems
- Connection to the utility grid to buy and sell electricity



Inspiration by The Minto Group, in Manotick, Ontario. The Inspiration home features innovations such as a rainwater harvesting system and an "all-off" electrical switch which allows homeowners to turn off all sources of unnecessary energy consumption when they leave their home. Minto's Inspiration home recently earned the highest rating, platinum, for Leadership in Energy Environmental Design (LEED) for housing, receiving the highest score of any home in Canada. LEED measures energy efficiency, indoor air quality, water conservation and various features related to the community.

Avalon Discovery 3



by Avalon Master Builder, in Red Deer, Alberta. This EQ home features integrated photovoltaic tiles on the roof, a highly insulated slab on grade foundation with a system in the floor, drought resistant landscaping with rainwater storage backup, and a garage loft for storage.

Now House™ – by the Now House Project Inc., in Toronto, Ontario. Now House™ is a 60 year old post-profit that produces energy through renewable sources and recovers energy that would otherwise be lost from waste water and exhaust air.

The Riverdale NetZero Project – by Habitat Studio in Edmonton, Alberta. This duplex features units that use roughly a quarter of the total energy consumed by conventional homes. The passive solar design provides 40% of the home's heat, and the active solar thermal system provides an additional 64% of the space heating and 93% of the water heating.

For additional information, visit **www.cmhc.ca**

Lessons learned, knowledge transferred: bringing a Canadian perspective to Serbia

In Serbia, CMHC is proud to have been instrumental in helping to establish the National Mortgage Insurance Corporation (NMIC), or "Nacionalna korporacija za osiguranje stambenih kredita" (NKOSK), as it is known locally.

Following years of economic turmoil marked by civil unrest, high levels of debt and hyperinflation, it was clear that the housing stock was deteriorating due to the lack of a functioning housing finance system. The National Bank of Yugoslavia, now the National Bank of Serbia, championed the establishment of NMIC to help Serbian households obtain affordable housing financing.

CMHC was hired in 2002 by the National Bank of Yugoslavia to develop a business plan. CMHC's services were retained again to provide advisory services over an 18 month period. Funding for the initiative came from the Canadian International Development Agency (CIDA) through World University Service of Canada (WUSC).

NMIC was incorporated in 2004 and the first loans were insured in 2005. As a testament to its success, nine lenders signed up with NMIC in its first year of operation and the corporation insured 1,500 loans, worth close to EUR 40 million. This volume easily surpassed its business plan target of 1,300 loans. What's more, in one year, mortgage rates fell from approximately 12% to 7%, substantially improving housing affordability.

The Serbian government views NMIC as the catalyst for the economic, legal and regulatory reforms that were needed to stimulate private investment in housing.

Today, NMIC has attained its original business objectives. The vast majority, 80%, of the lending has been for loans under EUR 50,000 (or roughly $75,000 Cdn.).

"We are very happy with our success – almost EUR 1.5 billion of insured housing loans, including mortgage loans which make up 3.5% of GDP, which have helped 50,000 people to settle their housing issues. I would like to point out that these numbers would likely be much smaller without CMHC's generous technical assistance and the support of the Canadian government to Serbia."

Aleksandar Jovic, NMIC Director



CORPORATE GOVERNANCE

CMHC reports to Parliament through the Minister of Human Resources and Skills Development and Minister responsible for CMHC, the Honourable Diane Finley. It is governed by a Board of Directors appointed by the Governor in Council. (See "The Board of Directors and its committees" later in this section.)



Seated left to right, Karen Kinsley, Dino Chiesa and Sophie Joncas
Standing left to right: Joel Teal, Gary Mooney, Anne MacDonald, Brian Johnston, James Millar, Harold Calla, André Plourde

Good corporate governance is at the heart of all of our activities and successes

Practicing good governance

Strategic planning and supporting government directions

The Board is responsible for developing future directions for the Corporation taking into account federal policies and priorities, while also being responsive to changes in the operating environment through ongoing monitoring.

At the outset of the 2009-2013 planning cycle, the Board's strategic planning session reviewed CMHC's corporate objectives and strategies in order to determine if they remained relevant in the context of the overall federal agenda. The Board discussed the key issues and drivers facing the Corporation and determined appropriate responses to address them. Given the ongoing impact of subprime lending on the housing market in the U.S., a guest speaker on the topic was invited to address the Board. The planning session led to new key initiatives in all of CMHC's business areas for the 2009-2013 Corporate Plan which is submitted to the government for approval.

The Board also continued to review ongoing research with respect to future directions in both the primary and secondary housing finance markets. This review will ensure that CMHC remains well positioned to respond to the changing financial landscape from both mortgage loan insurance and securitization perspectives.

Late in 2008, CMHC was asked to support the Government of Canada's actions to increase funds for lending by financial institutions. The Insured Mortgage Loan Purchase Program (IMPP), first announced in October 2008 and further enhanced in November 2008 and in Canada's Economic Action Plan – Budget 2009, will see the government purchase through CMHC up to $125 billion in securities backed by insured mortgages. The rate of return that the government earns on these investments exceeds the government's borrowing costs.

Corporate risk management practices

CMHC operates in a dynamic environment where the ability to respond to changing requirements and emerging opportunities is critical to the successful achievement of its objectives. Issues may arise in the operating environment such as changes in government direction and the competitive environment that necessitate a re-evaluation of priorities throughout the year. CMHC's management continually assesses strategic level risks identified through its Enterprise Risk Management (ERM) framework and provides the Board with a quarterly assessment. The framework provides the basis for a structured and systematic review of potential issues in our operating environment that could pose a risk to meeting our objectives. The framework also provides a focus on certain infrastructure or operational risks, and the financial risks that the Corporation is exposed to from our insurance, securitization and investment activities. (Also see Management Discussion and Analysis, page 31.)

In support of the Board's responsibility for ensuring appropriate risk management practices, the President and Chief Executive Officer provides the Board of Directors with an annual ERM Letter of Representation. The objective of the ERM Letter of Representation is to provide the Board with a reasonable assurance that management collectively, through our corporate risk management structure and various processes, has identified and assessed the main business risks to which CMHC is exposed and that these are being appropriately managed or mitigated, openly discussed and reported upon. (See page 92.)

Performance management

The Board reviews performance reports prepared by management on a quarterly basis. Recommendations with respect to changes to priorities or the allocation of resources are brought to the Board for consideration. This process enables the Corporation to continue to focus its efforts on the matters of greatest significance to ensure the Corporation achieves its objectives. The process also increases transparency and accountability in corporate decision making and helps CMHC employees better align their efforts with corporate priorities.

Program evaluations

The Board's Audit Committee assists with overseeing program evaluations. These evaluations provide objective assessments of the relevance and effectiveness of policies and programs and are key to the government decision making process. In 2008, two evaluations were completed: the Canada Mortgage Bonds Program (results are on CMHC's website) and the Shelter Enhancement Program. Evaluations of CMHC's renovation programs and the Affordable Housing Initiative occurred over the course of 2008 and will be completed in the first quarter of 2009.

2008 Special Examination

In February 2009, the Board received the results of the 2008 Special Examination carried out by the Corporation's external auditors. As required by the *Financial Administration Act*, the Corporation is subject to a Special Examination every five years (within a 10-year period as of 2009) and the examiners are required to express an opinion on the management of the Corporation as a whole. For the fifth consecutive Special Examination, the examiners provided a "clean" opinion, meaning that the examiners found no significant deficiencies in the systems and practices of the Corporation. Examiners found that the Corporation's systems and practices are maintained in a way that provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The review suggested some opportunities for improvement which will be addressed by the Corporation. The Special Examination report will be posted on CMHC's website in the second quarter of 2009.

Values and ethics

The Board of Directors understands that values and ethics play a crucial role in modern business management.

Standards of Conduct, Conflict of Interest and Disclosure of Wrongdoing policies, as well as ethics awareness sessions are some of the tools CMHC employs to enhance understanding of what values and ethics mean on a day-to-day basis.

To ensure better alignment with the federal government's *Public Servants Disclosure Protection Act*, an amendment to CMHC's Disclosure of Wrongdoing policy was made in 2008. The policy provides employees with a process to disclose wrongdoing in the workplace and ensures that it is addressed in a timely manner.

Given increasing scrutiny of all organizations, these tools are an important part of each and every employee's repertoire and enable them to carry out their responsibilities confidently.

Keeping in touch with Canadians

The Board meets twice a year outside of Ottawa to hear from clients, housing organizations, and local agencies. This enables Board members to learn about the challenges faced by Canadians in finding affordable, quality housing. This year, the Board met in Saskatoon in May and in Halifax in August.

The Board of Directors and its committees

The Board manages the affairs of the Corporation in accordance with the *CMHC Act*, the *National Housing Act*, the *Financial Administration Act*, and corporate by-laws. The Board sets out the strategic direction of the Corporation in the context of government policies and priorities, provides advice to the Minister, examines the continued relevance of public policy objectives and enabling legislation, and ensures the integrity and adequacy of corporate management practices, policies and procedures. The Board also evaluates CMHC's key corporate risks, overall performance and financial results.

The Board of Directors is comprised of the Chairperson, the President and Chief Executive Officer, and eight other directors. The Chairperson and President and Chief Executive Officer are appointed for terms as deemed appropriate by the Governor in Council, while the other directors are appointed for terms of up to four years. Only the President and Chief Executive Officer is a member of CMHC management.

For a list of Board members as of December 31, 2008, see page 146.

The Board has established three committees to assist with its responsibilities: the Audit Committee, the Corporate Governance and Nominating Committee and the Human Resources Committee. The committees review and make recommendations to the Board within their respective areas.

The Audit Committee: This committee advises the Board on the soundness of the financial management of the Corporation, assists in overseeing internal control systems, risk management, financial reporting and audit processes including internal audit, the annual financial audit and the periodic Special Examination.

The Corporate Governance and Nominating Committee: This committee is responsible for advising the Board on matters of corporate stewardship by monitoring best practices, trends and issues and making recommendations with respect to corporate governance. This includes periodic examination of the Corporation's objectives and mandate, setting annual corporate priority objectives and targets and promoting effective communication with the Government of Canada, stakeholders and the public. This committee also evaluates the President and Chief Executive Officer's performance and makes recommendations to the Board regarding the President's compensation. It also identifies qualified candidates for the Chairperson and for the President and Chief Executive Officer positions.

The Human Resources Committee: This committee oversees corporate policies and strategies related to human resources and makes recommendations to the Board on policies governing recruitment, retention, training, diversity, official languages, compensation, performance management and succession planning.

Terms of Reference for these committees are posted on CMHC's website.

The CMHC Pension Fund: The Pension Fund is managed and administered by Trustees through a Trust Agreement. The Trustees are responsible for setting investment objectives and policies, selecting external investment managers and monitoring the investment results of the Pension Fund. CMHC's Pension Fund governance structure and practices meet or exceed governance guidelines of the Canadian Association of Pension Supervisory Authorities.

Board member composition and competencies

Success in corporate governance is linked to the degree that Board members understand their roles and responsibilities, along with the skills, competencies and experience they bring to the table.

In 2008, the Board undertook a review of its competency profile. Orientation sessions for newly-appointed Board members, followed by periodic briefings, were also provided. To ensure that they maintain the skills and knowledge necessary for them to carry out their responsibilities, Board members are encouraged to attend governance sessions organized by the Canada School of Public Service and the Privy Council Office. In addition, Audit Committee members regularly attend training sessions hosted by the Canadian Institute of Chartered Accountants.

As vacancies arise, the Board recommends appointments keeping in mind the types of clients that CMHC serves. In addition to ensuring candidates possess knowledge of housing matters, financial expertise and governance skills, a proper balance of gender, language, ethnic background, and geographical representation is also sought.

CMHC Board Committees

Committee	Meetings	Membership	Areas of focus
Audit Committee	5	S. Joncas (Chair) H. Calla B. Johnston	1. International Financial Reporting Standards 2. Regular monitoring of ongoing internal audit activity 3. Assists in overseeing internal control systems, financial management, risk management, financial reporting 4. CEO/CFO Certification
Corporate Governance and Nominating Committee	3	D. Chiesa (Chair) S. Joncas G. Mooney K. Kinsley	1. Updated Board Competency Profile 2. Establishment of Corporate Priority Objectives
Human Resources Committee	3	J. Teal (Chair) A. MacDonald J. Millar	1. Classification review 2. Employee demographic profile 3. Review of key human resources priorities including succession management 4. Review of "CMHC: My Choice" as sub-brand to attract and retain employees

Board Member	Total Compensation (fees and retainer $)	Board of Directors (six meetings)	Audit Committee (five meetings)	Corporate Governance and [illegible] Committee	Human Resources Committee [illegible]	[illegible] Fund (three meetings)
Dino Chiesa	37,610	6/6	n/a	3/3	1/1	n/a
Harold Calla	27,200	5/6 *	4/5	n/a	n/a	n/a
Hugh Heron[1]	1,493	n/a	n/a	n/a	n/a	n/a
Brian Johnston[2]	19,206	6/6	4/4	n/a	n/a	n/a
Sophie Joncas	31,700	6/6	5/5	3/3	n/a	n/a
Karen Kinsley	n/a	6/6	n/a	3/3	n/a	3/3
Anne MacDonald	27,200	6/6	n/a	n/a	3/3	n/a
James Millar	26,200	6/6	n/a	n/a	3/3	n/a
Gary Mooney	17,700	5/6	n/a	2/3	n/a	n/a
André Plourde[3]	13,533	4/4	n/a	n/a	n/a	2/2
Joel Teal[4]	21,200	6/6	2/2	n/a	2/2	1/1
Alex Werzberger[5]	5,703	2/2	n/a	1/1	1/1	n/a

* *Absent due to illness*

1 - Hugh Heron – appointment completed January 29, 2008
2 - Brian Johnston – new member effective January 29, 2008
3 - André Plourde – new member effective April 11, 2008
5 - Alexand[illegible]



Forward-Looking Statements

CMHC's Annual Report contains forward-looking statements regarding objectives, strategies and expected financial results. There are risks and uncertainties beyond the control of CMHC that include, but are not limited to, economic, financial and regulatory conditions nationally and internationally. These factors, among others, may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.



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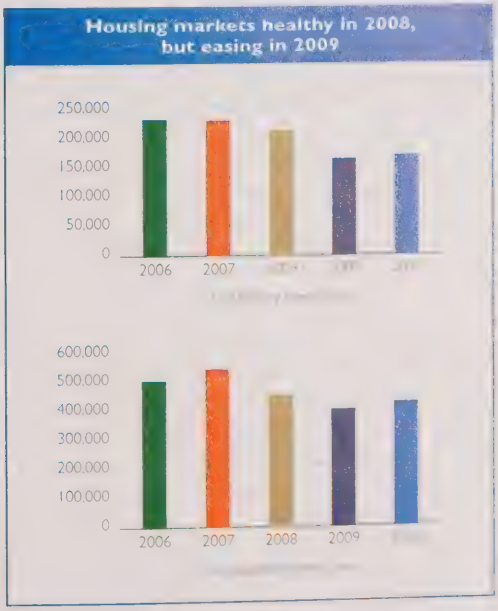
Canada's Economic Action Plan – Budget 2009 was introduced by the federal government on January 27, 2009. Housing measures that impact CMHC are examined as part of discussions throughout this Management Discussion and Analysis.

The operating environment in 2008 and outlook for 2009

Overall economic growth was modest through the first three quarters of 2008. The pace of real GDP growth for 2008 as a whole is estimated at about 0.7%, down from 2007's 2.7% pace. This drop is attributed to financial market concerns and a recession in the United States. While the Canadian dollar has weakened relative to the U.S. dollar, the economic downturn in the U.S. has negatively affected Canadian exports and will continue to do so in 2009. The range of GDP forecasts for Canada in the February 2009 Consensus Economics Survey was from a low of -1.8% to a high of -0.4% with the average being -1.1%.

The Consumer Price Index (CPI) for 2008 increased by 2.3%, slightly faster than the annual average increase of 2.2% in 2007. This was the fastest rate of change since the annual average increase of 2.8% in 2003. Major contributors to the increase in 2008 were higher prices for food, energy products and mortgage interest costs. However, prices for energy commodities moved dramatically lower in the second half of 2008, which was reflected in a moderation in the rate of CPI inflation. The year-over-year increase in the CPI, which peaked at 3.5% in August, slowed to 1.2% by December.

The Bank of Canada has reduced its target for the overnight lending rate by a total of 350 basis points since December 2007. The most recent decreases were a 75 basis points decrease to 1.5% on December 9, 2008 and another 50 basis points decrease to 1.0% on January 20, 2009. According to the Bank of Canada, the outlook for the global economy has deteriorated, with the intensifying financial crisis spilling over into real economic activity. Heightened uncertainty is undermining business and household confidence worldwide and further eroding domestic demand. Major advanced economies, including Canada's, are now in recession and emerging-market economies are increasingly



Employment growth from December 2007 to December 2008 was 0.6% (+98,000), much slower than the increase of 2.2% (+358,000) observed over the same period in the previous year. From the record low of 5.8% in early 2008, the unemployment rate had climbed 0.8 percentage points by the end of the year to reach 6.6% in December. The unemployment rate climbed further to 7.2% in January. Most of the rise in the unemployment rate happened from October 2008 to January 2009, as employment fell by 213,000 1.2%) during this period.

in 2008, down 7.6% compared to

Summary of financial results

REVENUES AND EXPENSES

CMHC reports on these principal business activities:

- **Housing Programs:** Expenditures and operating expenses are funded by parliamentary appropriations.
- **Lending:** Revenues are earned from interest income on the loan portfolio which is funded through borrowings.
  Housing programs and lending support housing for those in need and are operated on a breakeven basis.
- **Insurance:** Revenues are earned from premiums, fees and investment income. Expenses consist of operating expenses and net claim expenses. The Corporation's Net Income is primarily derived from this activity.
- **Securitization and Canada Housing Trust (CHT):** Securitization revenues are earned from guarantee fees and investment income. Expenses consist primarily of interest expenses. CHT revenue is earned primarily from income on investments in NHA Mortgage-Backed Securities (NHA MBS) and, to a lesser extent, investments in short-term securities. Revenue derived from investment income is used to cover operating expenditures and Canada Mortgage Bonds (CMBs) interest expense. As such, CHT operates on a breakeven basis.

Results in $M except staff years	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Revenues	9,320	9,470	11,985	15,966
Expenses	7,746	7,893	9,566	14,061
Income Tax	504	482	641	552
Net Income	1,070	1,095	1,778	1,353
% of Planned Net Income Achieved	104%	95%	112%[1]	95%
Other Comprehensive Income	(200)	90	(604)	65
Comprehensive Income	870	1,185	1,174	1,418
Resource Management				
Operating Expenses	347	355	385	460
Staff Years	1,888	1,928	1,945	2,030

[1] *The calculation of "% of Planned Net Income Achieved" does not include the IMPP Net Gains (Losses) from Other Financial Instruments and the related tax impact.*

Net Income

Consolidated Net Income was $1,778 million in 2008, $683 million (62%) above plan. Unrealized gains from the fair valuation of the IMPP (less their corresponding taxes) represent $550 million of this variance.

Additionally, premiums and fees, primarily in the Insurance Activity, were higher than plan largely due to the change in the actuarial earnings factors which were not accounted for in the plan and also as a result of increased demand for insurance products. Interest income was also positively impacted by the receipt of these additional premiums and fees. Furthermore, unplanned net gains from the fair valuation of financial instruments occurred in the Lending Activity because CMHC's interest rate on borrowed funds was lower than the interest rate it earned on its loan portfolio.

These unplanned revenues were partially offset by the impact of the deteriorating economic conditions, primarily in the Insurance Activity. This resulted in higher than planned net claims expenses and lower than planned net gains from financial instruments. A further Asset-Backed Commercial Paper (ABCP) net write-down of $51 million also negatively impacted Net Income.

Other Comprehensive Income

Other Comprehensive Income (OCI) results from unrealized gains or losses caused by the fair valuation of investments in Insurance and Securitization Activities. In 2008, the fair value of these instruments resulted in the recording of a $604 million loss compared to a planned gain of $90 million.

BALANCE SHEET HIGHLIGHTS

Results in $M	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Total Assets	148,168	156,275	203,512	345,318
Total Liabilities	141,174	147,923	195,342	335,484
Accumulated Other Comprehensive Income (AOCI)	328	659	(276)	531
Contributed Capital	25	25	25	25
Retained Earnings (other)[1]	2,383	3,292	2,998	3,974
Retained Earnings Set Aside for Capitalization	4,258	4,376	5,423	5,304
Total Equity of Canada	6,994	8,352	8,170	9,834

[1] *Includes: Unappropriated Retained Earnings, Reserve Fund and Inter-entity Elimination*

Assets and Liabilities

In 2008, total assets were $204 billion, $47 billion or 30% over plan. Total liabilities at year end were $195 billion, $47 billion or 32% over plan. These variances from plan are largely due to the purchase of $25 billion of NHA MBS from Canadian financial institutions and increased NHA MBS and CMB issuances.

Equity of Canada

Equity of Canada is made up of three components:

Contributed Capital

The capital of CMHC is $25 million unless otherwise determined by the Governor in Council.

AOCI

AOCI is the accumulated unrealized gains or losses caused by the change in fair valuation of investments in Insurance and Securitization Activities. It was negative $276 million at the end of 2008 compared to the plan figure of $659 million.

Retained Earnings

Total Retained Earnings were $8,421 million of which $5,423 million is set aside for capitalization.

Within the Public Accounts of Canada, CMHC's annual consolidated Net Income increases the government's annual surplus; the consolidated Retained Earnings and Accumulated Other Comprehensive Income reduce the government's accumulated deficit.

The *CMHC Act* and *National Housing Act* govern the use of the Corporation's Retained Earnings. In particular, the Retained Earnings from Insurance and Securitization Activities may be only used for the capitalization of CMHC's mortgage loan insurance and securitization operations respectively, for payment of a dividend to the Government of Canada, for the purposes of the *National Housing Act* or *CMHC Act*, or any other purpose authorized by Parliament relating to housing, and for retention. In the last several years, a portion of Retained Earnings from the Insurance Activity has been used for capitalization (Appropriated Retained Earnings). All other Insurance and Securitization Retained Earnings have been used for retention (Unappropriated Retained Earnings).

Retained Earnings related to the Insurance Activity are appropriated in accordance with guidelines set out by the Office of the Superintendent of Financial Institutions (OSFI). CMHC's target for capitalization is 150% of the minimum capital test recommended by OSFI. Although not regulated by OSFI, CMHC follows their guidelines as a prudent business practice. The Insurance Retained Earnings must also be viewed in the context of an insurance business with $408 billion (2007 - $345 billion) of insurance in force. Retained Earnings set aside for capitalization only represent 1.3% of this contingent liability (2007 - 1.3%).

Retained Earnings related to the Lending Activity have been kept by the Corporation as part of its strategy in dealing with its interest rate risk exposure on pre-1993 loans, and to guard against fluctuations resulting from the financial instruments accounting standards. These Retained Earnings are subject to statutory limits. Should the limits be exceeded, CMHC would be required to pay the excess to the Government of Canada.

Issues in Focus

Insured Mortgage Purchase Program (IMPP)

Recent global financial turmoil has reduced the availability of private sector lending to Canadian mortgage markets and lending markets overall. In October 2008, as a measure to maintain the availability of longer-term credit in Canada, the Government of Canada announced it would purchase $25 billion in *National Housing Act* Mortgage-Backed Securities (NHA MBS) from Canadian financial institutions through a competitive auction process to be managed by CMHC. This Insured Mortgage Purchase Program (IMPP) was further enhanced in November 2008 and in Canada's Economic Action Plan – Budget 2009. These enhancements would see the government purchase, through CMHC, up to an additional $100 billion in NHA MBS.

As of December 31, 2008, the Government of Canada had supplied CMHC with $25 billion in funding which was used to purchase NHA MBS. CMHC can make investments of this nature as part of its commercial activities under Part I of the *NHA*. The Corporation has presented the IMPP in its Securitization Activity.

All of the mortgages involved in this initiative are high quality assets that are already insured through CMHC or private insurers. As a result, there is no additional risk to taxpayers or to CMHC. This is an efficient, cost effective and safe way of providing secure and reliable long-term funding to Canada's financial institutions which benefits Canadian households, businesses, and the economy.

Third-Party Sponsored ABCP

In August 2007, the Canadian market for Third-Party Sponsored ABCP became illiquid resulting in these investments not paying on maturity. An agreement, the Montreal Accord, was reached in August 2007 whereby investors agreed to stand still and not take action that would result in an event of default. During 2007 and 2008, the Pan-Canadian Investors Committee was tasked with finding a solution to the Third-Party Sponsored ABCP crisis. On January 16, 2009, the restructuring plan was fully implemented. The Corporation received new notes on January 21, 2009.

At December 31, 2008, CMHC held Third-Party Sponsored ABCP with an original cost of $239 million. The book value of Third-Party Sponsored ABCP held by CMHC at December 31, 2008 was $165 million (2007 – $216 million), representing 69% of par value. The fair value of these assets was estimated using valuation techniques that included a 100% probability of successful restructuring and weighted discounted future cash flow techniques.

The new notes received on January 21, 2009 resulted in an additional decline in value of $5 million. Changes in values subsequent to year-end have not been recorded in 2008.

CMHC's ability to respect its commitments and to fulfill its mandate has not been impacted by the ABCP liquidity issue as these instruments represent an insignificant portion of CMHC's portfolio.

CHANGES IN ACCOUNTING POLICIES

CMHC's accounting policies are described in Note 2 of the Consolidated Financial Statements. Effective January 1, 2008, the Corporation adopted the three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535 (*Capital Disclosures*), Handbook Section 3862 (*Financial Instruments – Disclosures*) and Handbook Section 3863 (*Financial Instruments – Presentation*).

FUTURE ACCOUNTING CHANGES

Transition to International Financial Reporting Standards (IFRS)

On February 13, 2008, the CICA Accounting Standards Board (AcSB) confirmed that the changeover from Canadian GAAP to International Financial Reporting Standards (IFRS) will be required for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS.

The Corporation has chosen to approach the conversion in five phases: Diagnostic Assessment, Design and Planning, Solutions Development, Implementation, and Post Implementation Review. During 2008, the diagnostic assessment phase was completed.

The IFRS transition plan is currently being finalized, including a timetable for assessing the impact on systems, internal controls over financial reporting and business activities. A formal project governance structure has been established which includes an executive IFRS steering committee. In addition, an external advisor has been engaged to provide advice and oversight during the various phases of the project.

The Corporation continues to monitor standards development as issued by the International Accounting Standards Board and the CICA AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators. Such developments could affect the timing, nature or disclosure of the adoption of IFRS.

The transition to IFRS is a significant undertaking. As the design and planning phase is still in progress, CMHC is unable to quantify the impact of IFRS on its financial statements. The following table outlines the elements of CMHC's IFRS conversion plan along with an assessment of progress towards achieving these objectives. As the project progresses or further changes in regulation or economic conditions occur, changes to the transition plan may be required.

CMHC IFRS Changeover Plan: Assessment as of December 31, 2008

Project Phase	Milestones	Status
Diagnostic Assessment		
Identify differences in Canadian GAAP/IFRS accounting policies	Report delivered by external advisor	Completed
Design and Planning		
Launch project, establish project governance Develop training and communications plan	Project structures in place	In progress, completion in 2009
Solutions Development		
Identify solutions to IFRS and evaluate Develop final solutions to IFRS	Solutions approved by management	To be completed in 2009
Implementation		
Rollout IFRS solutions Test and remediate	Financial systems and processes are able to capture and report IFRS information	To be completed in 2010
Post Implementation Review		
Debrief management and assess implementation Ongoing IFRS update and related changes management	Ongoing process post 2011	To be started in 2011

Performance against objectives

CMHC delivers programs, products and services in support of three objectives and seven strategic priorities:

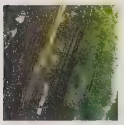
Objective 1: Help Canadians in need	
Strategic Priority 1.1	Help Canadians in need access affordable, sound and suitable housing
Strategic Priority 1.2	Support Aboriginal Canadians to improve their living conditions
Objective 2: Facilitate access to more affordable, better quality housing for all Canadians	
Strategic Priority 2.1	Ensure Canadians have access to mortgage loan insurance products and tools that meet their needs
Strategic Priority 2.2	Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program
Strategic Priority 2.3	Provide comprehensive, timely and relevant information to enable consumers as well as the housing sector to make informed decisions
Objective 3: Ensure the Canadian housing system remains one of the best in the world	
Strategic Priority 3.1	Promote sustainable housing and communities
Strategic Priority 3.2	Support and promote Canada's world class housing products, services and systems internationally

For each strategic priority, we have laid out performance measures and the expected outcomes of our activities. Performance measures serve to ensure that our activities remain on track. Ratings in our Scorecard are as follows:

- Target met or exceeded (> 98% of plan)
- Target substantially met (≥ 95% and ≤ 98% of plan)
- Target not met < 95% of plan)

Our expected outcomes are meant to go beyond these measures. In many respects, outcomes are the ultimate reasons why we do the things we do, so that housing can lead to other social, economic and environmental benefits for Canadians. The attribution of housing initiatives to outcomes is complex given that there are many factors that need to be considered. CMHC uses results of research and evaluations to enhance its understanding of the linkages and to refine the way it measures its performance. As information is made available periodically through the Census, specialized surveys and program evaluations, CMHC will address housing trends and impacts in various corporate publications including future annual reports.

OBJECTIVE 1
Help Canadians in need



STRATEGIC PRIORITY 1.1:

Help Canadians in need access affordable, sound and suitable housing

We provide funding to support social housing projects across the country so that thousands of families can continue to live in homes they can afford. We also work with the public, private and non-profit sectors to create more affordable housing options for Canadians.

Jim Glover, President, Life Bridge Inc., of Charlottetown, Prince Edward Island, spoke about the assistance received from CMHC to produce a supportive housing development for adults with intellectual disabilities: *"Some of our people found out that CMHC could help you in doing a feasibility project to see what is possible, what kind of funding would be available, putting together a business plan and maybe a financing plan. And we found them wonderful really, they get excited about what you're trying to do and they just like to feel that they're a part of it."*

RESOURCES

Operating expenses: $58 million
Staff-years: 388

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Provide funding to support social housing	Housing program expenses, excluding operating expenses ($M)[1]	1,912	2,333	2,262	2,247
	Estimated number of households assisted	626,300	628,300	623,700	621,700
Facilitate development of affordable housing	Affordable Housing Initiative expenditures ($M) (2009 target reflects program renewal)	95	73	90	93
	Affordable housing units facilitated by CMHC's Affordable Housing Centre	3,154	1,900	3,325	2,500
Provide funding for renovation programs	Renovation programs expenditures (value of loans forgiven over time) ($M) (2009 target reflects renewal)	116	113	107	141
Provide mortgage funds through Direct Lending	Annual Direct Lending [2] ($M)	1,222	1,396 to 1,501	1,712	839 to 903
Canada's Economic Action Plan (off reserve) – Budget 2009	Affordable Housing Initiative and Federal/Provincial retrofit expenditures [3] ($M)	N/A	N/A	N/A	300
	New renovation and energy retrofits off reserve unilateral expenditures ($M)	N/A	N/A	N/A	25
	New Direct Lending for Municipal Infrastructure ($M)	N/A	N/A	N/A	611 to 656

1. The majority of housing program expenses ($2,262 million), supports assisted housing programs both on and off reserve. The remainder supports research and information transfer, and export promotion activities. See Glossary for specific programs or Note 12 to the Financial Statements

2. Direct Lending loans to on- and off-reserve project sponsors seeking financing

3. Includes initiatives delivered by Provinces and Territories (PTs) to [illegible] constructed for seniors and persons with disabilities and retrofit of existing [illegible] to the North for both new construction and retrofit)

PERFORMANCE ANALYSIS

In 2008, CMHC continued to work in partnership with provinces, territories and others in the provision of affordable housing for thousands of low income families — families who would not have otherwise been able to access affordable, sound and suitable housing in their communities.

Providing housing assistance

CMHC provided federal funding of about $1.7 billion so that over 623,000 households do not have to pay a disproportionate amount of their income on rent. This funding is provided on an annual basis in accordance with existing long-term social housing agreements. The ongoing federal funding offsets some of the operating and maintenance costs, including mortgage payments, so that lower rents can be maintained.

For those social housing project sponsors renewing their mortgages, CMHC offers Direct Lending at favourable interest rates to reduce the cost of federal subsidies. In 2008, we provided over $1.7 billion in loans surpassing our target.

We also provided funding to help develop some 5,200 units of new affordable rental housing through the Affordable Housing Initiative (AHI). The funding provided under the AHI is cost matched by provinces and territories that design and deliver the programs.

Thousands of Canadians were able to access affordable, sound and suitable housing with CMHC assistance

Our renovation programs also helped some 20,400 lower income families and individuals off reserve bring their homes up to minimum health and safety standards, including facilitating the renovation of some 5,400 affordable rental property units. However, we did not meet our 2008 expenditure target for the off reserve renovation programs. The target, which was based on preliminary planning information, was overestimated.

Funding for both the AHI and CMHC's renovation programs was scheduled to expire March 31, 2009. On September 4, 2008, the Government of Canada announced funding for housing and homelessness programs at $387.9 million per year for five years (total $1.9 billion) to March 31, 2014. From this amount, the government renewed the funding for AHI and CMHC's renovation programs at current levels for two years, from April 1, 2009 to March 31, 2011. As evaluations of the AHI and renovation programs are underway, their two year renewal, with a five-year funding commitment, provides an opportunity to consider improvements to how the federal government will address housing and homelessness challenges and to ensure that programs continue to respond to the needs of Canadians.

Helping communities develop affordable housing

Through the CMHC Affordable Housing Centre, we helped the non-profit and private sectors, and municipalities to develop affordable housing. The Centre's team of experts provided information and advice to help get 3,325 units off the ground this year, significantly exceeding our target as a result of projects being completed more quickly than originally anticipated. Seed Funding and Proposal Development Funding (see Glossary for program descriptions) also played a role in enabling groups to get started.

Every year, CMHC helps communities develop thousands of affordable homes through public-private partnerships

CMHC mortgage loan insurance also played a role, supplementing the help that the Affordable Housing Centre had to offer. Insured loans for the development of affordable housing can qualify for certain underwriting flexibilities making it easier for groups to obtain financing. In 2008, 3,538 units of affordable housing were eligible for mortgage loan insurance underwriting flexibilities.

Researching housing need

CMHC's research and information transfer activities also supported achievement of this priority. Research projects dealt with affordability issues; in particular, issues faced by certain segments of the population such as immigrants, seniors, and persons with disabilities.

Understanding the nature of housing need is critical to ensuring effective programs aimed at helping Canadians

For example, innovative research examined the persistency of core housing need using longitudinal housing data developed by CMHC on the Statistics Canada Survey of Labour and Income Dynamics. The study found that, over a three-year period, there was an important dynamic in the nature of core housing need, with about two-thirds of the individuals who experienced core housing need during the period doing so for only one or two years.

LOOKING AHEAD

With the economic downturn, CMHC's role in helping low income Canadians access housing has never been more important. While the incidence of households in core need dropped between 2001 and 2006 from 13.7% to 12.7%, there remain over 1.5 million Canadian households who cannot access suitable and adequate housing at a price they can afford.

As noted earlier, on September 4, 2008, the Government of Canada announced funding for housing and homelessness programs of $387.9 million per year for five years to March 31, 2014. For the first two years, this relates to CMHC's Affordable Housing Initiative (AHI), the housing renovation programs, including the Residential Rehabilitation Assistance Program (RRAP), and Human Resources and Skills Development's (HRSD's) Homelessness Partnering Strategy (HPS), all which were set to expire on March 31, 2009.

Canada's Economic Action Plan – Budget 2009 invests in housing for Canadians in need

Canada's Economic Action Plan builds on this significant investment with a further investment of more than $2 billion over two years to build new and repair existing social housing units across the country.

Taken together, these investments will improve the quality of life for low income households, Aboriginal Canadians, seniors, and persons with disabilities. In addition to improving housing in Canada, these investments will also stimulate housing construction and create jobs.

Amendments to agreements with provinces and territories who deliver this assistance to Canadians will be required. These investments in housing are also in addition to the ongoing subsidies the federal government provides through CMHC for existing social housing units.

CMHC will also make available loans to municipalities to finance housing-related infrastructure as announced in Canada's Economic Action Plan.

Expected outcomes for Canadians

- Low income Canadians have greater access to affordable, sou suitable housing stock that meets health and safety standards and persons with disabilities, assistance extends independent (Immediate outcome)
- Governments and other organizations have information to b policy options related to housing for Canadians in need. Industry best practices in areas where CMHC undertakes research (Intermediate outcome)
- Individuals and families have a more stable foundation for acce opportunities and improving their quality of life. Communities benefit fr greater stability and prosperity. (Long-term

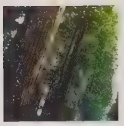
New Federal Investments in Housing

September 4, 2008 announcement:

- $1.9 billion over five years which includes: $250 million for AHI, $256.2 million for CMHC's renovation programs and $269.6 million for HRSDC's Homelessness Partnering Strategy over the first two years

January 27, 2009 Canada's Economic Action Plan – Budget 2009:

- $1 billion over two years for renovations and energy retrofits for existing social housing
- $400 million over two years for the construction of social housing under the AHI for low income seniors
- $75 million over two years for the construction of new social housing units under the AHI for persons with disabilities
- $400 million for new social housing projects and to remediate existing social housing stock on First Nations reserves ($250 million allocated to CMHC; $150 million to INAC)
- $200 million for new social housing and social housing retrofits in the North
- Up to $2 billion in direct, low-cost loans to municipalities to finance housing-related infrastructure
- Other measures include a Home Renovation Tax Credit ($3B), additional funding for the ecoEnergy Retrofit Program ($300M), an increase to the amount of RRSP savings that can be accessed by first-time homebuyers for their down payments ($30M), as well as a First Time Home Buyers' Tax Credit ($385M).



STRATEGIC PRIORITY 1.2:

Support Aboriginal Canadians to improve their living conditions

Working closely with Indian and Northern Affairs Canada and First Nations, we provide funding to help communities on reserve build and renovate housing, and assist them to improve their capability to manage their unique housing needs. We also work with other levels of government and local organizations across Canada in developing housing solutions that meet the needs of Aboriginal Canadians living off reserve.

RESOURCES

Operating expenses: $19 million
Staff-years: 138

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Provide funding to develop housing on reserve	New units committed under the On-Reserve Non-Profit Rental Housing Program	1,442	858	945	774
Provide funding to renovate housing on reserve	Renovation program expenditures (value of loans that are forgiven over time) ($M)	22	17	14	19
Support First Nations in capacity and institutional development	Housing programs and services delivered through First Nations or Aboriginal organizations (%)	92	80	90	83
	Average number of Memoranda of Understanding (MOUs) signed with First Nations with respect to improving the viability and quality of housing through the Housing Quality Initiative (HQI)	N/A	43	44	43
Support development of market-like housing conditions on reserve	Homeowner units facilitated through insured financing or other market-based housing tools	190	150	242	170
Canada's Economic Action Plan (on reserve) – Budget 2009	New units committed under the On-Reserve Non-Profit Rental Housing Program	N/A	N/A	N/A	138
	New – Retrofit delivery of on-reserve expenditures ($M)	N/A	N/A	N/A	25

PERFORMANCE ANALYSIS

In 2008, CMHC continued to provide funding for housing programs on reserve so that more First Nation families could have affordable housing that meets minimum health and safety standards. Working with INAC and First Nation people, we continued to undertake initiatives designed to enhance Aboriginal capacity in managing housing programs and improving housing quality on reserve. Through our mortgage insurance products, CMHC also worked to address the unique problem of the inability to use reserve lands as security for financing.

Working to close the housing gap

CMHC provides funding to support housing developed under the On-Reserve Non-Profit Rental Housing Program. There are some 28,500 First Nation households who live in housing developed under the program. In addition, CMHC commits funding to First Nations to develop additional units under the program every year; program dollars are generally subsidies disbursed over a period of up to 25 years. In 2008, we committed funding to 945 new non-profit housing units, surpassing our target.

Our renovation programs helped bring housing up to minimum health and safety standards for over 1,000 First Nation families. However, similar to our renovation programs off reserve, we did not meet our 2008 expenditure target. The target, which was based on preliminary planning information, was overestimated.

Improving Aboriginal capacity and housing quality

At 90%, we also surpassed our target with respect to First Nations' delivery of housing programs.

Over the course of the year, CMHC worked with some 44 First Nations to enhance their ability to manage housing programs on reserve. Under the Housing Quality Initiative (HQI), training sessions on property management, home maintenance, including how to prevent and remove mold, and other important aspects of managing housing programs are provided in collaboration with Indian and Northern Affairs Canada, Health Canada and the Assembly of First Nations.

We are working with First Nations, Aboriginal groups, INAC and others to better meet housing needs on reserve and improve living conditions

We support the development of skills, markets and institutions that will permit First Nations to direct and control their own housing

Expanding homeownership opportunities

We facilitated homeownership for some 242 families living on reserve. Some of these families accessed private financing with CMHC mortgage loan insurance, while others obtained uninsured financing or participated in innovative financing techniques offered by their First Nation community. The families are now able to enjoy the benefits of homeownership that many Canadians have come to expect.

On May 5, 2008, the First Nations Market Housing Fund (FNMHF) was established. The Fund began operations with a $300 million contribution from the Government of Canada. The contribution, along with any investment income earned, will act as a partial backstop for private financing of homes on reserve and on settlement lands where appropriate. At December 31, 2008, the Fund held $303 million in investments. As the Fund was still in the process of being established, no guarantees had been provided to lenders as of December 31, 2008.

Understanding Aboriginal housing, including its challenges, is critical to improving housing conditions on reserve in ways that respect local conditions, the environment, and culture

To complement the First Nations Market Housing Fund's activities, CMHC developed the First Nations Homeownership Strategy (FNHS). Under the strategy, CMHC works with First Nations to assess their capacity for homeownership and subsequently develop and implement a comprehensive plan of action. In 2008, 10 First Nations agreed to participate in the strategy with a goal of creating new homeownership opportunities within two years.

Improving living conditions through research and demonstration

CMHC combined its expertise on sustainable building practices with the Aboriginal community's knowledge of its distinct housing needs to develop two demonstration homes in the North. We worked with local partners in Nunavut and Yukon on two durable energy-efficient sustainable demonstration homes. One home has opened in Dawson and efforts are being pursued to open the second home in Nunavut.

In 2008, we undertook a research project which studied eight First Nations who are leaders in their pursuit of homeownership and market-based housing. These eight First Nations have developed innovative financing and other programs that have improved access to financing for their membership and resulted in higher rates of homeownership. Several of the First Nations that participated in our research used their business ventures and economic development activities to generate capital for their homeownership programs.

For example, some First Nations provided down payment assistance and loan guarantees, and established rent-to-own programs. Other programs were designed to give guidance to prospective homeowners on personal housing finance and home maintenance basics. All in all, these First Nations have found that the most important preconditions for increasing homeownership on reserve are leadership support and commitment, and community education and involvement.

LOOKING AHEAD

The rapid growth of the Aboriginal population in Canada and the housing shortage on reserve will mean that many will continue to experience housing problems. Incidence of housing problems for First Nations families living on reserve is higher than for the general Canadian population. Based on the 2006 Census, on-reserve households are six times more likely to live in housing that is in need of major repair and four times more likely to live in crowded housing. In 2006, 33.5% of Aboriginal on-reserve households were living in housing that was crowded and/or in need of major repairs and could not afford an alternative in their community, nine times the Canadian rate of 3.6%. The gap in housing conditions between on- and off-reserve housing has increased since 2001, when 27.7% of Aboriginal on-reserve households faced these conditions and did not have sufficient income to access alternative housing, seven times the rate of Canadian households not living on reserve (3.8%).

Overall investment in housing in First Nation communities was increased in Canada's Economic Action Plan. In addition to ongoing funding, the federal government announced that it will commit an additional $400 million over two years through CMHC and INAC for the construction of new social housing and the remediation of existing homes.

Aboriginal families living off reserve are assisted through federal housing funding that is available to all Canadians. The extension of funding for the Affordable Housing Initiative and CMHC's renovation programs will benefit Aboriginal Canadians. Canada's Economic Action Plan also earmarked $200 million for new social housing and social housing retrofits in the North benefiting Inuit and other Aboriginal peoples over the next two years. (See Scorecard under Strategic Priority 1.1.)

Expected outcomes for Canadians

- First Nation members have greater access to affordable, sound and suitable housing that meets health and safety standards. For seniors and persons with disabilities, assistance extends independent living. (Immediate outcome)
- Increased homeownership on reserve allows First Nation households to participate more fully in the economic, social and cultural spheres of their communities. (Immediate to intermediate outcome)
- First Nation or Aboriginal organizations have the capacity to develop, maintain and manage their own housing on reserve. (Intermediate outcome)
- Governments and First Nation or Aboriginal organizations have information to better assess policy options related to housing for First Nation members. (Intermediate outcome)
- Individuals living on reserve have a stable foundation for accessing opportunities and improving their quality of life. (Long-term outcome)
- First Nation members gain greater financial security and health through increased homeownership on reserve. On reserve communities benefit from greater stability and prosperity. (Long-term outcome)

FINANCIAL ANALYSIS

Housing Programs

Results Highlights ($M)	2007 Actual	2008 Plan	2008 Actual	Results against Plan	2009 Plan
Housing program expenses	$1,912	$2,333	$2,288	98%	$2,247
Operating expenses	$108	$115	$103	90%	$114
Total Appropriations	$2,020	$2,448	$2,391	98%	$2,361

On an annual basis, the Corporation spends approximately $2 billion to assist Canadians in need. Of this total, approximately $1.7 billion is related to long-term social housing commitments, with $1.1 billion of that amount transferred to provinces and territories under social housing agreements.

The 2008 plan and actual results are higher than the previous years because CMHC, on behalf of the Government of Canada, transferred a federal contribution of $300 million to establish the First Nations Market Housing Fund.

Lending Activity

Results Highlights ($M)	2007 Actual	2008 Plan	2008 Actual	Results against Plan	2009 Plan
Interest Income	$858	$764	$786	103%	$748
Other	$(3)	$(2)	$(1)	50%	$(2)
Gains (Losses) from Financial Instruments	$(20)	$(8)	$77	963%	$(7)
Interest Expense	$842	$741	$761	103%	$739
Operating Expenses	$17	$24	$18	75%	$22
Income Taxes	$(5)	$(3)	$19	633%	$(6)
Net Income (Loss)	$(19)	$(8)	$64	800%	$(16)
Reserve Fund	$121	$133	$185	139%	$177

CMHC's Direct Lending Program provides financing and renewals for eligible social housing projects and offers the lowest average financing rate available.

Lending Net Income was $72 million above plan largely due to gains on financial instruments designated at fair value. While the lending portfolio is hedged, market rates used to value each aspect of the portfolio did not respond to market changes at the same rate, thus resulting in valuation differences.

Canada's Economic Action Plan – Budget 2009 gave CMHC a role in terms of providing loans to municipalities to fund housing related infrastructure initiatives. Up to $2 billion in loans will be available over two years for projects such as sewers, water lines, roads and sidewalks related to new or existing residential developments.

Also see Enterprise Risk Management for further discussion on Lending Activity, page 84.

OBJECTIVE 2

Facilitate access to more affordable, better quality housing for all Canadians



STRATEGIC PRIORITY 2.1:

Ensure Canadians have access to mortgage loan insurance products and tools that meet their needs

CMHC is Canada's public mortgage loan insurer. We provide insurance to Approved Lenders to cover their financial losses in the event of mortgage loan default by borrowers. This enables Canadians to access financing for housing at competitive interest rates no matter where they live in Canada.

"The level of service from CMHC is exemplary. CMHC underwriters are knowledgeable, personable, focused on customer needs and always looking for ways to improve the current excellent level of service and provide exceptional turnaround times." – Sam Kolias, Chief Executive Officer and Chairman of the Board, Boardwalk REIT

RESOURCES

Operating expenses: $186 million
Staff-years: 936

1. This includes issuance costs from the Insurance Activity which are deferred for financial statement purposes.

OUR SCORECARD

Activity	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Provide a range of mortgage loan insurance products for homeownership and rental housing	Total mortgage loan insurance approved in units	803,151	578,539	919,790	873,375
	Total mortgage loan insurance approved ($M)	125,066	86,073	148,327	139,388
	Per cent of rental and high ratio homeowner units approved to address less-served markets and/or to support specific government priorities	36.9	33.0	41.8	33.0
	Operating expense ratio (%)	10.7	12.1	12.0	12.8

PERFORMANCE ANALYSIS

Under Canada's *Bank Act*, all federally-regulated financial institutions must insure residential mortgage loans when the borrower's down payment is less than 20%. This insurance covers lenders' losses in the event that the borrower defaults on the loan.

For most people, the hardest part of buying a home, especially a first home, is saving the necessary down payment. With CMHC insurance, borrowers can purchase a home with a minimum down payment of 5% and access the same competitive interest rates as borrowers with down payments of 20% or more.

When arranging mortgage financing for a homebuyer, lenders choose the mortgage insurer, and the premium charged to the lender is passed on to the borrower, usually by adding the premium amount to the mortgage and amortizing it as part of the mortgage payment. The cost of mortgage insurance is generally more than offset by the savings that result from the lower interest rates.

As Canada's public insurer, CMHC is committed to providing insurance for both homeowner and rental properties in every part of the country, including small, rural and northern communities and on reserve. We offer a range of insurance products and services to lenders on a commercial basis and compete with private sector insurers. CMHC manages its mortgage insurance business at no cost to Canadian taxpayers. We follow sound business practices and maintain sufficient capital [illegible] loan insurance business as recommended by OSFI.

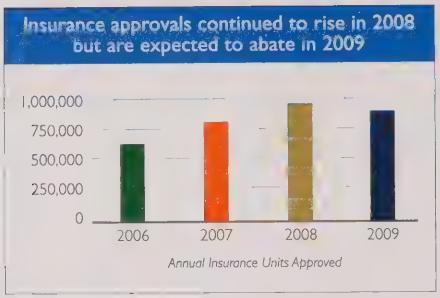
Business volumes in 2008

In 2008, 919,790 units, for a total of $[illegible] mortgage loan insurance, well above [illegible]

We surpassed our targets in all our business lines including homeowner, rental and portfolio insurance.

The economic downturn, however, had a slight dampening effect on homeowner insurance volumes in the latter half of the year as both new home starts and the resale markets dipped. However, our business development and marketing efforts, and our close relationship with key clients as well as with the mortgage broker industry, helped us achieve our targets over the course of the year for both homeowner and rental product lines.

Despite a [illegible] the second half of the year, we surpassed all of our performance targets related to mortgage insurance



Portfolio insurance allows lenders to create and insure pools of previously uninsured low-ratio mortgages where borrowers had more than a 20% down payment. Portfolio insurance is an effective and efficient method for lenders to manage their risk and capital requirements. The product helps to facilitate the availability of low-cost mortgage funding by increasing the supply of insured mortgages eligible for securitization and guarantees under CMHC's NHA MBS and the Canada Mortgage Bond programs. The adequate supply and availability of these funds in turn ensures that lower mortgage interest rates are offered to Canadian consumers. In these volatile economic times in the financial sector, CMHC's portfolio insurance volumes have been increasing, contributing to the overall stability of the Canadian housing finance system.

As Canada's public mortgage insurer, we ensure that Canadians can access mortgage insurance in the communities they live for the types of homes they need

Ensuring access to mortgage loan insurance

CMHC offers mortgage loan insurance to many Canadians who would otherwise not be served or not be as well-served by private sector insurers. These include loans for housing in rural areas, on reserve, in Canada's North and in single industry towns. CMHC is also the only insurer for large rental properties, nursing and retirement homes, and mobile homes. Our affordable housing underwriting flexibilities are designed to make it easier for borrowers to purchase homes that have been developed by proponents of affordable housing. Last year, 42% of approved rental and high ratio homeowner units were in less-served markets and/or in support of specific government priorities. We are proud that CMHC can be counted on to address the housing finance needs of Canadians regardless of where they live or whether they rent or own.

In 2008, we introduced a new insurance product to complement the efforts of the First Nations Market Housing Fund. We also enhanced our policy with respect to insured lending on designated lands on reserve. Both of these serve to grow First Nations' capacity to access private financing and create market-like conditions on reserve where the inability to use reserve lands as security on loans as a result of the *Indian Act* often presents a significant hurdle.

Providing client service

CMHC has a strong focus on client service. In 2008, we continued to provide our clients with information on the overall performance of their insured portfolios, with tools on how to detect and prevent mortgage fraud, and with market analysis and other consumer-oriented information to enhance their business opportunities. Our client service center answered over 472,000 inquiries with respect to our products and policies and serves to provide valuable feedback on how we are doing.

We support lenders in the prudent administration of their insured loans and in exercising appropriate default management techniques to assist borrowers facing temporary financial difficulties. CMHC provides lenders with comprehensive default management tools and the flexibility to make timely decisions, helping to find effective solutions for borrowers facing default situations.

As our operating environment evolves and uncertainties are introduced into the marketplace, we know that strong business relationships are critical to our

Understanding our changing regulatory environment

In July 2008, the Government of Canada introduced new parameters governing the application of government-backed mortgage loan insurance. Of note is the maximum limit on the loan-to-value ratio of a mortgage of 95%, a maximum amortization period of 35 years for mortgages with a loan-to-value ratio of more than 80%, and certain minimum credit score requirements. CMHC supported the new parameters, announcing corresponding product and policy changes on October 15, 2008, the effective date of the new parameters.

FINANCIAL ANALYSIS

Insurance Activity

Results Highlights ($M)	2007 Actual	2008 Plan	2008 Actual	Results against Plan	2009 Plan
Investment Income	$633	$448	$533	119%	$579
Net Gains (Losses) from Financial Instruments	$93	$160	-	N/A	$140
Premiums, Fees and Other Income	$1,348	$1,278	$1,431	112%	$1,505
Interest Expense	$110	-	$8	N/A	-
Operating Expenses	$145	$155	$182	118%	$195
Net Claims	$315	$231	$372	161%	$279
Income Taxes	$482	$458	$403	88%	$507
Net Income	$1,022	$1,042	$999	96%	$1,243
Other Comprehensive Income	$(187)	$69	$(527)	(764)%	$24
Comprehensive Income	$835	$1,111	$472	43%	$1,267

Revenues from the Insurance Activity are comprised of insurance premiums, application fees (rental loans only) and income earned on its investment portfolio. Premiums and fees are received at the inception of the mortgage insurance policy. They are recognized as revenue over the period covered by the insurance contract using actuarially determined factors that reflect the long-term pattern for default risk. These factors are reviewed annually by the external actuary. As CMHC is mandated to operate its mortgage insurance business on a commercial basis, the premiums and fees it collects and the interest it earns must cover the related claims and other expenses. They must also provide a reasonable rate of return to the Government of Canada, ensuring a level playing field with private-sector mortgage insurers. As such, CMHC Insurance Activity is operated at no cost to Canadian taxpayers.

Premiums and Fees were higher than plan largely due to the change in the actuarial earnings factors which were not accounted for in the plan as well as an increase in demand for insurance products. Investment Income also exceeded plan due to the return obtained on excess cash flow from the higher than planned receipt of Premiums and Fees.

Net Gain (Losses) from Financial Instruments was lower than plan mainly due to the market conditions as the Corporation experienced losses on disposal whereas gains had been planned. In addition, a further write-down of ABCP contributed to the negative performance.

Operating expenses were over plan due to higher than planned insurance volumes and additional market initiatives.

Short-term changes in economic conditions affect the two components of net claims expense: the actual loss on claims paid during the year and the change in the provisions for claims that have already occurred but for which claims have yet to be filed. The provision for claims is an estimate based upon historical experience and projections of future economic conditions as well as prevailing legal, economic, social and regulatory trends, and expectations as to future developments. It is evaluated annually by an external actuary who reviews historical experience to determine if changes are required to assumptions regarding expected claim outcomes and the impact of future economic conditions. The 2008 actuarial valuation resulted in an increase to the Provision for Claims and corresponding Net Claims Expense due to the deterioration in current economic conditions. Net Claims Expense was also negatively impacted by higher than planned losses on claims where CMHC was required to take ownership of the foreclosed property.

LOOKING AHEAD

In 2009, CMHC will continue to provide mortgage loan insurance to its Approved Lenders so that Canadians [illegible] at competitive interest rates. We [illegible] prudent product and service [illegible] basis.

With weaker [illegible] insurance volumes [illegible]

The economic climate is [illegible] mortgage loan insurance [illegible] of existing homes will dampen [illegible] on a transactional basis. Despite the lower transactional business, CMHC anticipates that we will approve insurance for over 870,000 loans in 2009, including a sizeable proportion as portfolio pools. This anticipated volume level is higher than our 2007 volumes.

CMHC will work to maintain its competitive position in the marketplace through prudent product innovation and strong client relations. This includes working with lenders to satisfy product requirements, monitoring the quality of their insured loan portfolios, detecting and preventing mortgage fraud, and assisting with alternatives to default when borrowers have difficulty in meeting their mortgage payments.

We will increase the use of business analytics to better target resources, and assist lenders in managing and assessing risk in order to ensure the continued strength of Canadian mortgage markets and the Canadian housing finance system.

We will release an updated Default Management Guide to provide lenders with a more comprehensive review of the options available to them in assisting homeowners facing financial difficulties. Similarly, a consumer outreach campaign will help prepare borrowers so that they better understand these same options should they encounter difficulties in making their mortgage payments.

To protect Canadians from mortgage fraud, we will maintain our industry leadership in fraud prevention and awareness by continuing to raise understanding with our clients and through the launch of new tools.

Expected outcomes for Canadians

- Lenders are protected from losses due to borrower default and are willing to provide mortgage financing, and provide it at lower rates, because of CMHC mortgage loan insurance. (Immediate outcome)
- Canadians across the country, including less or under-served populations, can better access housing finance. (Immediate outcome)
- Portfolio insurance increases the efficiency of capital management for lenders and increases the competitiveness of small lenders. In combination with securitization, it also increases the availability of mortgage funding in Canada. (Immediate outcome)
- A healthy housing market which includes new construction as well as renovation activity contributes to job creation and economic growth. (Intermediate outcome)
- Canadians who choose homeownership can increase their financial security. (Long-term outcome)



STRATEGIC PRIORITY 2.2:

Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program

We guarantee the timely payment of interest and principal of NHA MBS securities issued by financial institutions and of CMBs issued by the Canada Housing Trust. Our securitization program helps ensure that a steady supply of low-cost funds is available for mortgage lending and provides investors with opportunities to hold high quality, secure investments in Canadian residential mortgages

"Since the beginning of the liquidity crisis, it was clear that the vehicle put in place by CMHC was one of the best that we could have found in the market. It is very clear that it is important to have both the Government of Canada and CMHC involved in that type of business so we can achieve the best cost of funding and we can do mortgages at the best possible prices for our members, our customers." – Jacques Descôteaux, Senior Vice-President, Treasury, Desjardins Group

RESOURCES

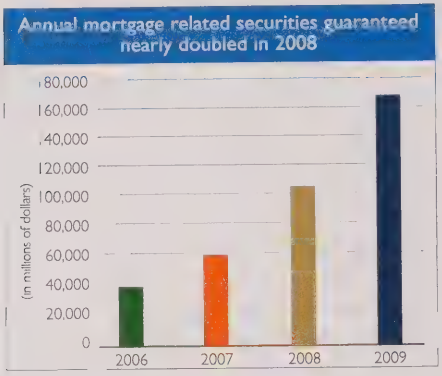
Operating expenses: $6
Staff-years: 46

[illegible]

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Ensure an adequate supply of low-cost mortgage financing	Annual securities guaranteed ($B)[1]	57.781	42.000	104.625	67.000
	Operating expense ratio (%)	5.8	<11	[illegible]	<11

PERFORMANCE ANALYSIS



Our securitization program contributes to a strong and stable Canadian housing finance system by ensuring that lenders can have access to low-cost funds for residential mortgages. As mortgages are pooled into marketable securities, additional funds are made available for mortgage lending to consumers. The demand for CMHC's securitization products has risen over the past few years due to robust housing markets.

Market conditions led to exceptional growth in our securitization activities in 2008

Business volumes in 2008

In 2008, CMHC guaranteed timely payment of interest and principal on $104.6 million in mortgage related securities. These volumes were 2.5 times higher than plan and almost double 2007 levels.

At the time of planning, the assumption was that steadily rising interest rates would cool the residential sector, leading to lower demand for securitization products. It was also assumed that mortgage lenders would meet some of their needs through other funding vehicles such as covered bonds issued directly by financial institutions.

However, the global liquidity and credit crisis which began in 2007 worsened in 2008, weakening investor demand for most structured finance products. This left mortgage lenders facing severe funding challenges. CMHC's securitization products are reliable and cost-effective funding tools available to financial institutions. As a result, a record volume of mortgage related securities carrying CMHC's payment guarantee was successfully issued in what would otherwise be considered difficult market conditions.

In addition, in response to the global liquidity crisis of 2008, the Government of Canada purchased $25 billion in insured mortgage pools through the newly-created Insured Mortgage Purchase Program (IMPP). This amount is also reflected in CMHC's 2008 securities guaranteed volume.

Expanding our securitization program

Over the past few years, we have worked to expand the range of financial institutions able to securitize and fund mortgages via our securitization program. We have been particularly focused on offering funding solutions for smaller lenders to make it easier for them to compete in the Canadian mortgage marketplace.

In 2008, the Canada Housing Trust issued $43.5 billion in CMBs guaranteed by CMHC versus $35.7 billion in 2007. The value of bonds issued in 2008 represent about 250,000 insured residential mortgages. For this year, 28 separate financial institutions contributed mortgages – both the number of mortgages and the number of providers are above 2007 levels.

In 2008, inaugural 3-year and 10-year bonds were also successfully introduced, creating a more liquid market for the bonds and providing more funding to mortgage lenders.

CMHC will continue to look at ways to enhance our securitization program to ensure lenders, especially smaller lenders, can raise the funds they need to offer mortgages to Canadian homebuyers at competitive rates

FINANCIAL ANALYSIS

Securitization Activity

Results Highlights ($M)	2007 Actual	2008 Plan	2008 Actual	Results against Plan	2009 Plan
CHT					
Interest Income from NHA MBS	$3,364	$3,647	$4,599	126%	$5,433
Income from Investment Securities	$909	$645	$840	130%	$776
Premiums, Fees and Other Income	$140	$115	$163	142%	$260
Interest Expenses	$4,266	$4,285	$5,432	127%	$6,203
Operating Expenses	$147	$122	$170	139%	$266
SECURITIZATION					
Interest Income from NHA MBS	-	-	$247	N/A	$4,241
Income from Investment Securities	$21	$21	$163	776%	$28
Net Gains (Losses) from Financial Instruments	$3	-	$733	N/A	$11
Premiums, Fees and Other Income	$65	$73	$99	136%	$147
Interest Expenses	-	-	$386	N/A	$4,241
Operating Expenses	$4	$6	$4	67%	$9
Income Taxes	$27	$27	$219	811%	$51
Net Income	$58	$61	$633	1,038%	$126
Other Comprehensive Income	$(7)	$21	$(24)	(114)%	$41
Comprehensive Income	$51	$82	$609	743%	$167

CHT 2008 revenues were positively impacted by the issuance of CMB and the investment in NHA MBS. The higher than expected CMB volumes have resulted in higher than planned revenues and expenses.

In 2008, Net Income from Securitization was $633 million, $572 million or 938% above plan. Unrealized gains from the fair valuation of IMPP (less their corresponding taxes) represent $550 million of this variance. The remaining variance is largely due to the guarantee and administration fees earned on the higher issuance volumes of CMB and NHA MBS.

NHA Mortgage-Backed Securities

The NHA MBS Program was designed to provide a more efficient secondary mortgage market and thereby lower the funding cost for mortgages. Under the NHA MBS Program, CMHC guarantees timely payment of interest and principal on privately issued NHA MBS that are backed by pools of private and NHA-insured mortgages. The Issuer assembles and administers the pool or uses a Servicer to service the mortgages in the pool on its behalf. The NHA MBS Program employs a Central Payor and Transfer Agent (CPTA) to facilitate the payments to investors, for the transfer of existing securities and the issuance of new securities. The Issuer arranges for the establishment of trust accounts at a financial institution through which principal and interest are deposited on a daily basis so as to make available amounts necessary to make full payment on the NHA MBS issued.

In late 2008, CMHC was asked to support the Government of Canada's actions to increase funds available for Canadian financial institutions. The Insured Mortgage Purchase Program was announced in October 2008 and in the fourth quarter the government, through CMHC, purchased $25 billion in securities backed by insured mortgages. The rate of return that the government earns on these investments exceeds the government's borrowing costs.

Canada Mortgage Bonds Program

CMHC introduced the CMB Program in June 2001. The objective of the program is to benefit homebuyers and the housing industry as a whole by improving access to lower cost mortgages for Canadians and enhancing liquidity in the mortgage market. CMBs are issued by the Canada Housing Trust and are fully guaranteed as to the timely payment of principal and interest by the Government of Canada through CMHC.

In the past year, when mortgage lending institutions in many countries faced liquidity and funding challenges, the CMB Program continued to provide cost-effective funding to Canadian mortgage lenders and a high-quality investment for investors.

In November 2008, the introduction of a CMB with a 10-year maturity allows the program to attract a broader pool of investors. The ability to successfully raise 10-year financing in current market conditions, when many issuers are being constrained to much shorter maturities, is a strong testament to the strength of the CMB Program.

The size and success of CMB transactions and the growth of the program underscore the value of this mortgage funding vehicle to Canada's mortgage industry. It also highlights the commitment of the government and CMHC to work with our industry partners to continue to improve housing affordability and choice for Canadians.

LOOKING AHEAD

Securitization guarantees in force reached $234 billion in 2008, up from $165 billion in 2007. As of November 30, 2008, 29.5% of residential mortgages in Canada were securitized, primarily through NHA MBS.

Mortgage lenders, particularly smaller lenders, will continue to face funding challenges following the 2007-2008 liquidity and credit crisis. CMHC's securitization products remain a reliable and cost-effective source of funding for many lenders. Expansion or enhancements to our products may be required in order to meet mortgage lenders funding requests.

In 2009, we expect demand for our securitization products to increase considerably over 2008 levels. In response, we will develop enhancements to our existing products to respond to industry demands aimed at deepening funding sources and enhancing the competitiveness of smaller lenders.

Further 10-year CMB bond issuances in 2009 will build upon the highly successful 2008 issue, serving to raise approximately $10 billion in incremental funding for housing-related loans.

In October 2008, the federal government announced it would purchase $25 billion of insured mortgages through the Insured Mortgage Purchase Program. Additional announcements were made in November 2008 and in Canada's Economic Action Plan – Budget 2009, each of these announcements committed up to another $50 billion, respectively, to the program – increasing the overall potential size of the program up to $125 billion from its original $25 billion.

Expected outcomes for Canadians

- Increased integration of mortgage market lending with capital market lending leads to greater efficiency and lower costs for lenders. (Immediate outcome)
- Canadians continue to be able to access low-cost financing for their homes. (Immediate outcome)



STRATEGIC PRIORITY 2.3:

Provide comprehensive, timely and relevant information to enable Canadian consumers as well as the housing sector to make informed decisions

As Canada's housing expert, we produce timely and accurate information. We share our knowledge and expertise with the housing industry, consumers and others through printed publications, conferences, seminars, media releases, and through our website. Our role in providing market analysis, fostering research in housing, and improving understanding of housing issues has contributed to a more efficient Canadian housing market.

"CMHC's Canadian Housing Observer is an absolute 'must-read' for any organization relying on housing statistics to communicate important messages to decision makers. At its core, this annual publication provides credible and well-documented statistics on a comprehensive array of topics, offering data that can be trusted." said Jean Perrault, President of the Federation of Canadian Municipalities (FCM) and Mayor of Sherbrooke, Quebec.

RESOURCES

Operating expenses: $35 m
Staff-years: 32

OUR SCORECARD

Activity	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Provide research, housing market analysis and forecasts that meet the needs of industry and other clients	Per cent of subscribers to market analysis publications who found them useful	93%	>94%	93%	>94%
	Per cent of attendees at Housing Outlook Conferences who found them useful	99.1%	95%	99.3%	95%
	Forecast accuracy of housing starts	-7.6%	Within 10% of actual	+1.5%	Within 10% of actual
	Ranking of housing starts forecast accuracy among forecasters	2nd amongst 19	Rank within top quartile	3rd amongst 18	Rank within top quartile
	Per cent of attendees at information transfer seminars who found them useful	95%	90%	92%	90%
	Per cent of recipients of newly published Research Highlights who found them useful	71%	70%	72%	70%
	Per cent of recipients of newly published About Your House fact sheets who found them useful	80%	80%	85%	80%

PERFORMANCE ANALYSIS

CMHC is one of Canada's most trusted sources of housing information. Reliable market information is critical to helping the housing industry and consumers make informed decisions. It is also required to ensure that housing-related issues are considered in the context of broader policy decisions. CMHC's research takes into account socio-economic, political and environmental factors which are constantly changing. With economic uncertainty, the demand from the housing industry, consumers and public policy decision makers for information will continue to remain high.

Our market forecasts consistently rank within the top quartile among industry forecasters in terms of accuracy

Building a reputation as a leader in housing market analysis

CMHC's national, regional and local housing forecasts, housing market analysis and data provide hundreds of industry members including home builders, realtors, lenders, mortgage brokers, as well as private citizens and governments with information they need to support their decisions. In 2008, CMHC ranked third among 18 forecasters in terms of accuracy of housing starts

forecasts, and our forecast for starts was very close (within two per cent) to the actual number.

CMHC is committed to being Canada's most reliable and comprehensive source of Canadian housing data and analysis. Several planned enhancements to CMHC's suite of market analysis products were completed in 2008, including a pilot national retirement home survey which will be fully implemented in 2009. This survey will provide the industry, governments and others with a comprehensive look at the supply and nature of nursing homes across the country. A national new homes sales survey was also introduced for five urban centres in 2008 and will be expanded to nine centres in 2009.

In 2008, CMHC delivered 18 Housing Outlook Conferences and seminars attended by almost 6,000 industry professionals. CMHC market analysts and economists also delivered more than 560 additional presentations throughout the country at a wide range of housing events, reaching an audience of almost 35,000 people. These conferences and speaking engagements are tailored to the needs of the local market and are known for delivering forecasts and trend analysis that the industry relies on to make more informed decisions and business investments. Feedback from participants of the Housing Outlook Conferences remains very positive, with 99% indicating that they found the conferences to be useful.

Providing valuable housing research to Canadians and the housing sector

In 2008, CMHC developed or updated 37 research and information products which provide relevant information on a diverse range of socio-economic and technical topics. Research topics relate to improving market effectiveness, strengthening community well-being, addressing distinct housing needs, and improving building performance.

In 2008, CMHC distributed more than 1.6 million copies of our research products, including the annual *Housing Observer*, which provides a comprehensive assessment of housing in Canada. Two of CMHC's most popular publications, *Research Highlights* and *About Your House* fact sheets, consistently receive high ratings by users.

distributed more than 1.6 million research and information products

We delivered 266 presentations on a variety of topics in 2008, reaching a combined audience of more than 14,000 individuals. Seminars offered in 2008 ranged from air quality symposiums to presentations on housing innovations. These seminars have become top quality, well-targeted events. The vast

majority of participants in our information transfer seminars, 92%, rated them to be useful.

Encouraging housing research

CMHC offers a range of awards and other programs that support others in undertaking research and demonstration initiatives. These include the Housing Awards Program (see Proven Results – Success Stories, page 13) and the External Research Program (ERP). ERP is an annual competition which enables Canadian researchers to carry out studies on various housing topics. In 2008, 18 recipients were selected to receive grants, totaling approximately $440,000, from CMHC.

In 2008, CMHC renewed the Affordability and Choice Today (ACT) program for another two years. Since its inception in 1990, ACT has been funded by CMHC and delivered in partnership with the Canadian Home Builders' Association, the Canadian Housing and Renewal Association and the Federation of Canadian Municipalities. The program is designed to stimulate changes in planning and building regulations that improve housing affordability and choice. The program provides financial support to community teams across Canada that have projects intended to improve planning and building regulations to make them more responsive to the housing needs of all Canadians.

LOOKING AHEAD

CMHC will continue to dedicate resources to research and information transfer. In 2009, we will continue to expand our survey analysis, validate the benefits of the New Home Sales Survey, and determine the feasibility of conducting a regular survey of taxes, fees and levies on housing. We will also explore new housing affordability indicators for specific segments of the population and explore various ways of expanding the availability of CMHC information related to housing affordability.

Expected outcomes for Canadians

- Consumers, the housing industry, stakeholders and policy makers have access to timely and relevant research and information on housing and housing markets. (Intermediate outcome)
- The housing market is more efficient and stable as a result of more effective matching of supply and demand. Consumers and the housing industry adopt best practices. (Intermediate to long-term outcomes)

OBJECTIVE 3

Ensure the Canadian housing system remains one of the best in the world



STRATEGIC PRIORITY 3.1:

Promote sustainable housing and communities

Because housing represents 16% of energy consumed by end-users, improving the sustainability of housing and communities is important. We develop and share examples of best practices that respond to the needs of Canadians and local conditions in order to reduce the impact of housing on the environment.

"When we first started this project, I thought that net zero energy buildings in our climate were barely possible. Thanks to this incredible team and with the help of CMHC's leadership, we managed to whittle our way down to zero energy with a group of strategies that are, for the most part, quite practical." – Peter Amerongen, President, Habitat Studio on the Riverdale NetZero Project

RESOURCES

Operating expenses: [illegible]
Staff-years: 49

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2009 Actual	2009 Plan
Promote research and information activities related to sustainable housing and communities	Per cent of attendees at information transfer seminars who found them useful	95%	90%	[illegible]	90%
	Per cent of recipients of newly published Research Highlights who found them useful	71%	70%	[illegible]	70%
	Per cent of recipients of newly published About Your House fact sheets who found them useful	80%	80%	[illegible]	80%

PERFORMANCE ANALYSIS

The volatility of energy prices and consumer awareness of environmental issues led to a greater focus on improving the energy efficiency of Canadian homes and creating more sustainable communities. CMHC provides useful and reliable information and tools to consumers, industry participants and governments who are interested in safeguarding the environment.

Educating consumers and the industry

Over the course of the year, CMHC produced 15 Research Highlights or other information products and delivered 165 presentations on energy-efficient homes, and sustainable designs and communities to some 8,244 participants across the country. Ninety-two per cent (92%) of participants rated these as useful.

Practical demonstrations of what can be achieved through sustainable designs and technologies encourage builders and homebuyers alike to consider these options in their homes

Promoting housing that is in balance with the environment

In our efforts to reduce the impact of housing on the environment, we also promote practical demonstrations of sustainable building practices through the EQuilibrium™ Sustainable Housing Demonstration Initiative (EQ). In 2008, four additional demonstration homes were successfully opened across the country. The homes are designed to produce as much energy as they consume and include a wide range of sustainable and energy-efficient technologies and design features.

The EQuilibrium™ initiative is the most aggressive and visible initiative of its kind in Canada. It attracts a high degree of interest in sustainable housing from builders and consumers alike. Additional EQ demonstration projects have been launched in the Atlantic and B.C. and are expected to be under construction in 2009. (Also see Proven Results – Success Stories, page 19.)

Improving the energy efficiency of homes through mortgage loan insurance

Under the CMHC Green Home mortgage insurance product, we offer partial premium refunds to borrowers who require mortgage insurance on the purchase of an energy-efficient home or to finance energy-efficient home improvements. In 2008, we explored additional enhancements to CMHC mortgage insurance products to further encourage energy efficiency. Changes to the CMHC Green Home mortgage insurance product were announced in December 2008, including streamlined administration of premium refunds and

other operational efficiencies. Additional policy and/or mortgage insurance product changes will be undertaken to support energy efficiency in multi-unit housing.

LOOKING AHEAD

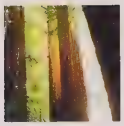
There is an opportunity for the housing sector to do more to support consumer choices for energy-efficient and environmentally-friendly housing. In 2009, CMHC will broaden awareness of practical measures that can be taken to reduce the environmental impact of housing by communicating demonstration results from the first EQuilibrium™ homes. CMHC remains committed to promoting healthy indoor environments. CMHC will continue to raise awareness of how Canadians can protect themselves from environmental contaminants.

While community design has a large impact on energy consumption, there are many barriers to implementing wide-scale sustainable community planning. These include insufficient data and knowledge, consumer awareness, perceptions and preferences, and professional and industry capacity. There is also a need for better understanding of the economic costs and benefits of sustainable development.

In 2009, we will work to raise awareness and promote informed decision-making in support of sustainable housing and communities. This includes drawing on CMHC's research abilities and public presence to inform consumers on topics related to sustainable housing and communities. CMHC will work with NRCan to develop a community-scale EQuilibrium™ demonstration.

Expected outcomes for Canadians

- Greenhouse gas emissions attributable to the residential sector are reduced through improved energy efficiency of new and existing homes. (Intermediate to long-term outcome)
- New and existing communities become more sustainable through adoption of sustainable practices, intensification of existing neighbourhoods, and brownfield re-development. (Intermediate to long-term outcome)



STRATEGIC PRIORITY 3.2:

Support and promote Canada's world-class housing products, services and systems internationally

Exporting goods and services creates economic growth and jobs for Canadians. CMHC works with key housing export clients to enhance their opportunities and competitiveness abroad and also provides consulting services to foreign governments and agencies seeking to improve housing conditions in their countries.

"What is particularly helpful to us is the work CMHC International is doing to help companies such as mine penetrate new markets and promote Canada's housing expertise. CMHC International relies on technical specialists who make links with other technical specialists." -- Bradley Berneche, President of Alouette Homes

RESOURCES

Operating expenses: $11 million
Staff-years: 67

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Assist clients to expand their business internationally	Overall satisfaction rate of key clients	92%	75%	92%	80%
	Value of CMHC facilitated sales reported by key export clients ($M)	106	120	129	120
Sell CMHC expertise abroad	Revenues achieved ($M)	2.2	2.5	1.6	2.5

PERFORMANCE ANALYSIS

Promoting industry exports

Despite severe downturns in housing markets in the U.S. and the United Kingdom, CMHC surpassed its performance target with over $129 million in facilitated export sales. This represents an increase of 22% over 2007 levels and over 7% above plan.

Our diversification strategy proved central to our clients' success. Our activities enabled our clients to better target markets with high future potential. While the U.S. remains a primary export market, it continues to deal with elevated consumer debt, falling home prices, and a general restructuring of its mortgage markets following the subprime crisis. In 2008, gains in markets such as Russia, China and France, along with sales resulting from prior business development activities, helped offset losses in the U.S. and attributed to our stronger than expected performance.

Assisting clients to expand their business internationally – met our facilitated sales targets



2008 CMHC Housing Export Facilitated Sales ($M)



U.S.	$ 49
U.K./Ireland	$ 13
China	$ 17
Russia	$ 22
France	$
Mexico	$ 6
Japan	$
S. Korea	$ 2
Others	$ 6

The results of the 2008 export client satisfaction survey continued to show an upward trend in satisfaction with CMHC services. While overall satisfaction remained steady from 2007 to 2008 at 92%, within that group a significantly higher proportion of respondents, 59%, was "extremely satisfied" in comparison to 39% in 2007 and 36% in 2006.

Sharing CMHC's expertise

Over the last 10 years, CMHC International has worked in over 30 countries around the world to improve access and affordability in housing finance and to develop and enhance mortgage markets. In support of Canada's foreign policy objectives, CMHC increases Canada's profile in the world by making a positive contribution to the improvement of housing systems and the sustainable development of housing in targeted countries.



CMHC's consulting services faced challenges in 2008 given the economic downturn. In 2008, we were active in the Philippines, Russia, Bahrain, Jordan, Saudi Arabia, Algeria, and Egypt.

As noted, our international consulting activities were affected by the global economic instability. Revenues generated from these activities, at $1.6 million, were 36% below plan and 27% below 2007 volumes.

In this highly uncertain environment, a number of projects are taking longer than expected to generate income. Many clients are exercising caution and choosing to postpone initiatives that were originally planned for 2008. Competitive tenders in various countries are also taking longer to be awarded.

Selling CMHC's housing expertise in global markets – revenues impacted by global economic downturn

Representing the Government of Canada on housing matters

We represent the Government of Canada on housing matters both domestically and abroad. In particular, we work with the national housing industry and federal entities to promote Canadian housing internationally. We also monitor international housing and housing finance trends, and maintain bilateral and multilateral relations with foreign governments and organizations, and participate in international initiatives and fora.

As Canada's representative to the United Nations Human Settlements Programme (UN-HABITAT), CMHC participated in the fourth World Urban Forum (WUF 4) in Nanjing, China in 2008. WUF 4 provided a venue to showcase Canada's best practices in urban sustainability, participatory and integrated planning, and local governance. CMHC worked with other government and private sector partners to contribute to several Forum dialogues, training and networking sessions and roundtables, on issues ranging from urban agriculture to disaster relief. CMHC also delivered a highly successful workshop on "Sustainable Community Planning through Stakeholder Engagement".

LOOKING AHEAD

As Canada continues to weather the negative impact of the U.S. subprime crisis and related global economic repercussions, there is growing interest from other countries in Canada's housing market and finance system. This is due to Canada's relative resilience during these turbulent times, including its successful issuance of mortgage related securities, low levels of residential mortgage delinquency and default, and more modest housing price declines. As a result, CMHC continues to host foreign delegations and receives numerous inquiries regarding our international services.

CMHC will also continue to support our key clients in their export efforts. Diversification of export markets and a focus on niche products are key strategies going forward for Canadian housing exporters.

Expected outcomes for Canadians

- Increases in Canadian housing exports contribute to economic growth and job creation in Canada. (Intermediate outcome)
- Better-functioning housing markets and institutions in developing countries result in improved access to affordable housing, and increased social stability and economic benefits to these countries. (Long-term outcome)

Ensuring a strong organization – internal services

A strong organization is a prerequisite to achieving CMHC's objectives. Like all successful organizations it begins with an engaged workforce supported by progressive policies and practices that allow them to excel in their professional lives and to achieve work-life balance. It also involves continuous improvement in internal corporate services that facilitate the efficiency and effectiveness of the work that we do for Canadians.

HUMAN RESOURCES

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Manage recruitment, retention, development and succession to ensure CMHC has a skilled, representative and bilingual workforce to meet its business needs	Retention of regular employees recruited 3 to 5 years ago	94%	93%	[illegible]	93%
	Per cent of critical and vulnerable positions with succession plans underway	100%	90%	[illegible]	90%
	Per cent of employees with development plans in place in CMHC's online performance management system	N/A	50%	[illegible]	85%
	Employees in bilingual positions meeting language requirements	89%	90%	[illegible]	90%
	Ensure that representation rates for Aboriginal people, visible minorities and persons with disabilities reflect or exceed the labour representation rates in the latest Census[1]	Aboriginal people 2.7%	Aboriginal people 2.6%	Aboriginal people 2.7%	Aboriginal people 2.7%
		Visible minorities 12.8%	Visible minorities 12.3%	Visible minorities 12.2%	Visible minorities 13.4%
		Persons with disabilities 4.1%	Persons with disabilities 4.7%	Persons with disabilities 3.9%	Persons with disabilities 4.7%
Foster an environment that maximizes the engagement and contribution of employees, that provides opportunities to learn and develop, and that rewards their performance	Overall level of employee engagement[2]	N/A	90%	96%	90%

1. 2001 Census Canadian Labour Market Activity rates are 2.6% for Aboriginal people, 12 [illegible] 5.3% for persons with disabilities.
2. Level of employee engagement was introduced as a performance measure in 20[illegible]

Continuing to implement our talent management framework

CMHC's talent management framework is designed to ensure that we succeed in attracting and retaining talented employees in order to meet our business objectives. The framework calls for actions with respect to workforce planning, recruitment, performance management, learning and development, and competitive compensation. The framework is also guided by the principle that managers are accountable for talent management, that employees should take responsibility for their career paths, and that CMHC's progress in implementing the framework is measured.

In 2008, we took additional steps to strengthen our policies and practices on all of these fronts and attained our performance targets with respect to retention, employee development, succession planning, and requirements under the *Official Languages Act*. Our employee engagement level, a new performance measure implemented in 2008, is 96%, well above industry norms and results for comparable organizations. These results validate the results of a similar employee engagement survey carried out last year in which 95% of CMHC employees reported feeling engaged in their work.

Research has consistently found that an organization's leadership, individual managers, people programs and culture drive employee engagement. Our performance measures confirm that CMHC is an attractive employer, as did the ranking of CMHC as one of the MediaCorp's Top 25 organizations to work for in the National Capital Region.

CMHC was recognized as one of Canada's best employers for diversity

While we have been successful in attaining workforce representation rates of visible minorities and Aboriginal persons that mirror Canadian Labour Market Activity rates, we fall short of representation rates for persons with disabilities. We will continue to strive to meet or exceed labour force availability rates as we strongly believe that a diverse workforce is essential to our success. CMHC has also been recognized by MediaCorp as one of Canada's best employers for diversity.

In 2008, we worked to reinforce the benefits of CMHC as an employer and to invest in the well-being of our employees

We launched *CMHC: My Choice*, a focused marketing effort to showcase the benefits of working for CMHC, and *Two Languages Under One Roof*, a corporate-wide Official Languages campaign to enhance CMHC's employees' second language skills. We invested close to $1,800 per employee on training and development, which places CMHC near the 90th percentile for the financial services industry. In addition, the language training offered by CMHC helped ensure that 91% of our employees in bilingual positions met their language requirements.

An employee-based President's Advisory Council (PACo), created in 1990, provides a valuable opportunity to raise concerns directly with the President and to work on improvements in the workplace. During 2008, the Council met with the President in April and October. This year, members were particularly interested in the impact of market conditions, global investment securities and the economy on CMHC. Other areas of interest for employees were CMHC's corporate climate, working environment, the corporate review of position classification conducted in 2008 and the Corporation's efforts to improve the environmental sustainability of its activities and practices.

Going forward, measuring how well our talent management framework is serving us will help ensure that CMHC is able to attract and retain the pool of talented employees we need to achieve our business objectives. It will also ensure that our employees work in an environment that maximizes their engagement and contribution, that provides opportunities to learn and develop, and that rewards their performance.

Need to continue to be vigilant in monitoring and responding to labour market trends

INFORMATION TECHNOLOGY

OUR SCORECARD

Activities	Performance Measures	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Leverage technology for operational efficiencies	Technology index for key systems	99.9%	99.8	[illegible]	99.8
	Operating budget spent on information technology	16.1%	15.5%	15.2%	15.5

CMHC fully expects that the rapidly changing technology environment will continue to impact business operations. The Corporation will manage its rapidly growing volume of electronic data and increasingly complex technical infrastructure to accomplish our corporate objectives in a responsible manner. In 2008, we invested 15.2% of our operating budget on information technology and continued to adopt technology and evolve the technical infrastructure to improve the efficiency, flexibility, reliability, security and quality of its support for CMHC's business activities, as well as to maintain the Corporation's overall security posture and safeguard its information technology assets. In 2009, CMHC will continue to ensure that its technology infrastructure is positioned to respond to new and evolving objectives in a volatile business and financial environment.

CORPORATE MARKETING AND COMMUNICATIONS

Reaching more Canadians to enhance their knowledge of CMHC

CMHC's marketing strategies are becoming more targeted and focused. They communicate to Canadians CMHC's role in helping Canadians in need, in ensuring a healthy housing finance system and in improving the quality and sustainability of housing. Web-based marketing strategies are now the cornerstone of CMHC's targeted marketing and communications outreach. In 2008, we developed a proactive outreach strategy aimed at Canada's ethnic populations. We also began to develop strategies to enhance our relationships with various stakeholders through greater use of new on-line web-based tools. Last year, CMHC directly helped millions of Canadians. Our website received just under 6 million visits and our 1-800 call centre responded to over 65,000 requests for information. CMHC's web-based, targeted marketing and communications strategies align with the Government of Canada's focus on proactive citizen engagement through Web 2.0 technologies.

Being good corporate citizens

Doing our part to safeguard the environment

CMHC, as a Crown corporation, meets requirements under the *Canadian Environmental Assessment Act* which stipulates that federal agencies, in exercising their powers, shall do so in a manner that protects the environment. In addition, we promote sustainable housing and communities as part of our core business activities, and look for ways to lessen our own impact on the environment.

In 2008, an independent waste audit of CMHC's national office was conducted – a practice that CMHC is considering implementing regularly. The audit revealed that CMHC currently diverts 51.2% of its waste to recycling and reuse facilities. This exceeds the latest targeted waste diversion rate of 50% set by the Canadian Council of Ministers of the Environment (CCME). Results of the survey are being assessed and additional waste reduction and diversion initiatives are being considered. The President's Advisory Council has also undertaken to look at ways to make CMHC a greener place to work. The Council has presented the President with many suggestions on actions to reduce CMHC's environmental footprint. It has also suggested various means of raising awareness among employees of practical actions they can take to contribute to a greener work environment.

Giving back to the community

Because of our public policy mandate, CMHC employees are well positioned to understand that there are many in our communities who are less fortunate. Our expertise in housing is frequently drawn upon by various community organizations and countless volunteer hours are given by CMHC employees to worthwhile causes across the country.

Our employees have been steadfast supporters of the Government of Canada's Workplace Charitable Campaign United Way and Healthpartners. This year, employees and retirees raised more than $307,000, including $126,000 which was raised in a one-day blitz.

Similarly, CMHC has a long-standing partnership with Habitat for Humanity Canada, with CMHC employees across the country volunteering their time and effort in local builds. CMHC is also the founding and lead national sponsor for Habitat for Humanity Canada Aboriginal Housing Program launched in 2007. The objective of the program is to engage Habitat for Humanity affiliates across Canada in implementing pilot programs that will help make the Habitat homeownership model available to more Aboriginal people. While the Aboriginal Housing Program will help address, in a small way, some of the housing problems that exist for Canada's Aboriginal peoples, it will also generate unique new partnership models. These will be evaluated as they are developed, and shared with Aboriginal groups and other housing providers. The most successful approaches will hopefully serve as the foundation for an expanded Aboriginal Housing Program in the future, and provide models for other groups and communities to emulate.

Another example of how we bring value is through our annual National Capital Gingerbread House Design Competition. With more than 20 local businesses donating spectacular gingerbread houses for a silent auction, almost $1,700 was raised this year for Habitat for Humanity homes in the National Capital Region.

Overall, CMHC is very proud to continue to be a "Gold" sponsor, Habitat for Humanity Canada's second highest sponsorship level ($500,000 to $999,999).

Enterprise risk management framework and risk management practices

ENTERPRISE RISK MANAGEMENT FRAMEWORK

Under Corporate Governance, we discussed the dynamic nature of CMHC's operating environment. The ability to respond to changing requirements and emerging opportunities is critical to the successful achievement of our objectives. Issues may arise in the operating environment, such as changes in government direction and the competitive environment that necessitate a re-evaluation of priorities throughout the year.

CMHC's management continually assesses its internal and external operating environment in part through its Enterprise Risk Management (ERM) framework. The framework provides the basis for a structured and systematic review of potential issues in our operating environment that could pose a risk to meeting our objectives and/or corresponding strategic priorities. The framework also provides a focus on certain infrastructure or operational risks as well as the inherent financial risks that the Corporation is exposed to from our Insurance, Securitization and Investment Activities.

CMHC's ERM framework is represented by the following diagram:



CMHC has an internal ERM group that facilitates the identification and assessment of the potential impact that a particular risk could have on the Corporation should it materialize. Through the ERM framework, CMHC management collectively identifies, discusses and monitors potential sources of risk to the Corporation. A quarterly strategic level risk assessment, integrated with the corporate performance reporting process, is provided to management and the Board of Directors to support the decision-making process.

Different sources of risk require different, and in some cases, more specialized and focused approaches to risk management as is discussed in more detail later on in this section. For example, in addition to appropriate policies and practices in this area, CMHC transfers a portion of its infrastructure/ operational exposure through the purchase of global and domestic insurance coverage that provides protection against unexpected material losses.

RISK MANAGEMENT PRACTICES

Objective One: Help Canadians in Need

Lending Activity

The main source of risk to the Corporation from Lending Activity under Objective 1 is credit risk. Credit risk is generally defined as the risk of loss due to the failure of a counterparty to meet its contractual obligations.

The CMHC loan portfolio represents loans and investments in housing programs that are made either independently or jointly with provincial, territorial and municipal authorities and which are funded by borrowings. With respect to this portfolio, CMHC has a process in place for default management. When a loan goes into default, a feasibility analysis is performed to determine the value of the property and collateral, and work-outs are carried out on a case-by-case basis. Every effort is made for early detection and intervention through regular reporting of projects in difficulty, application of solutions to cure defaults and an ongoing monitoring/reporting/approval process. In very rare cases where there is sufficient and compelling evidence that all possible options to cure the default have been exhausted and viable solutions are not available, CMHC will remove its support and/or subsidies. In addition to the above, the impact to the Corporation from this form of credit risk is further mitigated by the loan losses being recoverable from various levels of government.

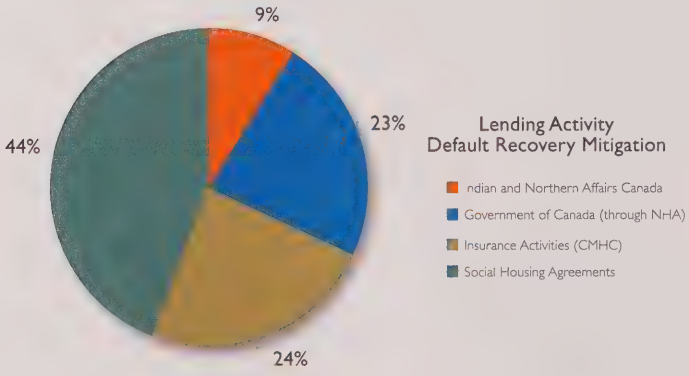
Loan Portfolio

Credit exposure, as reflected in the estimated fair value of loans arising from CMHC's Lending Activity, totalled $14.3 billion on an outstanding loan portfolio (book value including accrued interest) of $11.9 billion.

The losses on approximately 23% of CMHC's loan portfolio are eligible for recovery from the federal government to the extent that such recoveries are within CMHC's parliamentary appropriations.

Losses on approximately 24% of the portfolio are covered by CMHC's Insurance Activity. Reserves have been provided for claims that may result from these loans. Approximately 44% relates to loans covered under various social housing agreements negotiated with the provinces/territories.

Finally, approximately 9% of the portfolio is covered by Indian and Northern Affairs Canada through Ministerial Loan Guarantees.



Reserve Fund for the Lending Activity

Contributed Capital by the Government of Canada amounted to $25 million in the Lending Activity as of December 31, 2008. In addition, CMHC is authorized to retain the annual net income from the activity in a Reserve Fund of up to $240 million to protect the Corporation from possible future losses. Included in this limit is an amount of $115 million designed specifically for fluctuations in net income arising from the Canadian Institute of Chartered Accountants' (CICA's) new financial instruments accounting standards with the remainder to cover potential prepayment loss. The current Reserve Fund stands at $185 million, of which $109 million results from CICA's new financial instruments accounting standards.

Lending Activity Investment Portfolio

The Corporation is exposed to interest rate risk when asset and liability principal and interest cash flows have different interest payments or maturity dates. The severity of this risk is largely dependent upon the size and direction of interest rate changes, and on the size and maturity of mismatched positions. Interest rate risk is mitigated through the matching of assets and liabilities and through the use of derivatives where mismatches exist. Un-hedged interest rate risk is monitored and managed against internal risk tolerance limits set by the Asset/Liability Management Committee. Interest rate sensitivity analyses are performed by calculating the magnitude of cash flow fluctuation caused by changes in interest rates. At a 95% confidence level, the negative change in the net interest margin for the next twelve months cannot exceed the limit of $1.5 million. This limit has never been exceeded.

Objective Two: Facilitate access to more affordable, better quality housing for all Canadians

Insurance Activity

The main risk of financial loss to the Corporation from Insurance Activity is represented by the amount of future claims associated with insured mortgages relative to insurance premiums received. The overall performance of the economy is the main determinant of future claims patterns. Changes in unemployment rates and house price levels nationally and regionally and in mortgage interest rates are key economic variables affecting the incidence of claims, as they impact a borrower's ability to continue making their mortgage payments.

Sensitivity analysis of our Insurance Activity is carried out annually using dynamic financial analysis techniques. This allows management to evaluate performance under various business and economic scenarios. The results of the sensitivity analysis indicate that the Insurance Activity remains well capitalized under adverse scenarios and that it is highly unlikely that the investment portfolio would have to be drawn upon.

Risks related to homeowner insurance are assessed through our automated underwriting system, **emili**. Incorporated within **emili** are borrower, market, property, and fraud risk assessment models. Together, these automated models provide CMHC underwriters, located in all regions of the country, with the tools to effectively identify higher-risk mortgage loan applications. The underwriters can then take further steps to determine if risk-mitigating actions would effectively reduce the overall risk to a level that is acceptable and prudent. The most effective risk mitigating actions are continually researched and updated for underwriters. Management continually monitors and, if necessary, adjusts its risk assessment models based on actual claims experience. These automated models also provide the required information framework for the design of new or modified mortgage loan insurance products and their appropriate pricing.

Management also actively manages rental-related insurance risk through detailed and thorough underwriting processes that include analysis and risk assessment of the borrower, market, property and loan characteristics. A standardized risk assessment tool is employed by underwriters to assign a risk rating to each of these major risk components. Based upon the risk rating and complexity of the application, the underwriters take risk-

mitigating actions that effectively ensure the risk being assumed is at a level that is acceptable and prudent. The risk ratings along with the size of the loan and policy considerations determine the appropriate approval authority.

Insurance related risks are also managed through diversification. Because CMHC is mandated to serve all regions and territories throughout Canada, the insurance portfolio is geographically distributed, as is the portfolio's mortgage default risk. Difficult economic times, one of the key drivers of claim patterns, have historically demonstrated that they are also geographically distributed and changing over time. Insurance risks are also managed through lender-based assessments within its Quality Assurance framework. Through this framework, CMHC works with lenders to maintain quality standards in the underwriting and servicing of their mortgage portfolios.

Management ensures the financial viability of its Insurance Activity by making provisions for policy liabilities in accordance with prudent actuarial practices and by setting aside earnings consistent with capitalization guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI). OSFI provides a risk-based capital adequacy framework which establishes regulatory capital requirements for Canadian property and casualty insurers, including mortgage insurers. Although not regulated by OSFI, CMHC follows OSFI's guidelines as a best-in-class business practice. An annual independent external actuarial valuation ensures that reserves for policy liabilities related to all policy holder obligations in force are appropriate in accordance with accepted actuarial practice.

Securitization Activity

The major risk of financial loss to the Corporation arising from CMHC's Securitization Activity is the cost of fulfilling the timely payment guarantee provided by CMHC in an event of default, relative to the guarantee fees received. All securitized mortgages have full mortgage default insurance coverage.

For NHA MBS, the risk associated with issuer default is mitigated by both quality assessment and monitoring of the issuers and by a minimum spread requirement between the security coupon and the lowest mortgage rate in the pool. In the event of issuer default, the minimum spread is made available to a third-party issuer for the continued servicing of both underlying mortgages and the NHA MBS payments.

For CMB, in addition to the NHA MBS mitigations above, the risk associated with swap counterparty default is mitigated through program requirements for collateralization in the event of counterparty credit ratings below specific ratings thresholds and the requirement that all principal run-off investments be rated R-1 (High) or AAA within CHT.

Insurance and Securitization Investment Portfolios

Insurance premiums and fees from securitization are invested in separate investment portfolios. The main sources of risk from our investment activities relate to credit and market risk. Credit risk in the portfolios arises from investment in fixed income securities. Market risk is generally defined as the risk of loss as a result of fluctuations in capital market conditions. Market risk includes changes in interest rates, foreign exchange values and equity prices.

CMHC uses its insurance investment portfolio (insurance premiums are received when the mortgage is taken out and covers the life of the mortgage) to cover obligations associated with its provision of insurance to lenders against borrower default on residential mortgages.

The investment objective for the insurance and securitization portfolios is to maximize investment returns while maintaining sufficient liquidity to meet projected business requirements, including potential future claims and other liabilities. The investment objective is subject to appropriate risk considerations and to the constraints outlined in CMHC's funding, investment and risk management policies.

The size of the insurance investment portfolio has grown over the last few years and this trend is expected to continue. In 2008, the portfolio grew by $1 billion, from $12.1 billion to $13.1 billion, due primarily to positive net cash inflows.

As at December 31, 2008, the total return for the insurance portfolio was a negative 1.45%. Performance information, including absolute and relative risk-adjusted measures, is tracked and monitored in aggregate and at the individual asset class levels of the portfolio. The performance of the insurance investment portfolio compares to a benchmark return of negative 0.28%. This variance was primarily due to under-performance in the Fixed Income asset class.

The securitization investment portfolio is comprised of investments related to both the NHA Mortgage-Backed Securities program and the Canada Mortgage Bonds program.

As at December 31, 2008 the total return for the securitization portfolio was a negative 1.50%.

The investment management strategies for both portfolios are the same, as is the strategic asset allocation which is outlined in the table below. Approximately 48.9% of the total assets supporting the Insurance and Securitization Activities at year-end were invested in fixed income securities issued or guaranteed by the Government of Canada or Canadian provinces.

As the majority of CMHC's insurance and securitization investment assets are held within the fixed income portfolios, duration management is an important consideration in managing interest rate risk in the portfolios. The durations of the fixed income investment portfolios are managed within ranges relative to the duration of the DEX Universe Bond Index benchmark. As at December 31, 2008, the insurance and securitization fixed income portfolios had durations that were marginally shorter than the benchmark.

Insurance and Securitization Investment Portfolio Asset Mix (%)

Asset type	Strategic Allocation	Insurance	Securitization
Fixed Income	78.0	76.8	77.7
Money Market	4.0	4.3	4.0
Canadian Equity	10.0	9.9	9.9
EAFE Equity	4.0	4.0	4.0
U.S. Equity	4.0	3.8	3.9
Other[1]	0.0	1.2	0.5
Total	100.0	100.0	100.0

1. Other includes the non-performing ABCP, the repo spread portfolio and the cash account used for futures transactions

CMHC Management
Enterprise Risk Management Letter of Representation

February 9, 2009

This Letter of Representation is provided to the Board of Directors in support of its responsibilities with respect to the identification of the main business risks as outlined in the Board of Directors Mandate and By-Law 44 (*relating generally to the conduct of the affairs of the Corporation.*) The intended purpose is to provide reasonable assurance that management has identified and is managing the main business risks influencing CMHC's operating environment.

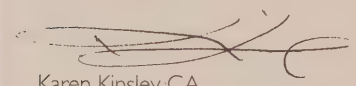
For and during 2008, CMHC management, through our enterprise risk management structure and process has:

- Identified and assessed the main business risks to which CMHC is exposed and provided the Audit Committee of the Board of Directors and the Board of Directors with reports throughout the fiscal year that are intended to enable them to understand and be apprised of these risks, and
- Reviewed CMHC's risk management policies to ensure that they continue to remain relevant and prudent under our current operating environment and, as required, recommended new policies and/or amendments to existing policies for the consideration of the Audit Committee and then Board of Directors approval.

Based on the work undertaken by CMHC management during this period, and our knowledge of the Corporation's affairs as of December 31, 2008, we represent that:

1. the risk management practices and policies currently in place to identify and manage the main business risks arising from these activities remain relevant and prudent, and that these practices and policies effectively support the Corporation's broader enterprise risk management efforts;
2. the adequacy and integrity of the Corporation's systems and management practices applied, in relation to the management of the main business risks of the Corporation, have been upheld; and
3. CMHC has an effective, corporate wide, enterprise risk management structure and process in place.

In making this representation, CMHC management has ensured that a reasonable level of consideration has been given to the identification and management of the main business risks to the Corporation.



Karen Kinsley, CA
President and Chief Executive Officer

2004 to 2009 financial highlights

Corporate Results	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Plan	2008 Actual	2009 Plan
Total Assets ($M)[2]	81,008	101,093	124,218	148,163	156,[illegible]5	203,512	[illegible]
Total Liabilities ($M)[1]	77,582	96,665	118,764	141,174	147,923	195,342	335,484
Total Equity ($M)	3,426	4,428	5,454	6,994	8,352	8,170	9,834
Total Revenue ($M)[1]	6,618	7,409	8,378	9,320	9,470	11,985	15,966
Total Expenses ($M)[1]	5,219	5,945	6,896	7,746	7,893	9,566	14,061
Total Operating Expenses ($M)[1]	305	303	298	347	355	385	460
Net Income ($M)[3]	950	1,002	1,026	1,070	1,095	1,778	1,353
Other Comprehensive Income ($M)	n/a	n/a	n/a	(200)	90	(604)	65
Comprehensive Income ($M)	n/a	n/a	n/a	870	1,185	1,174	1,418
Reserve Fund ($M)	134	143	143	121	133	185	177
Staff-Years	1,814	1,804	1,877	1,888	1,928	1,945	2,030
Insurance							
Annual Insurance Units Approved	652,573	746,157	631,191	803,151	578,539	919,790	873,375
Insurance-in-force ($M)	243,800	273,700	291,400	345,200	315,700	407,700	440,800
Net Insurance Claims Expense ($M)	51	119	209	315	231	372	279
Premiums and Fees Received ($M)	1,446	1,492	1,383	1,740	1,585	2,132	2,023
Investments (including cash) ($M)[2]	7,831	9,053	9,974	12,026	13,445	12,974	15,710
Net Income ($M)	875	951	981	1,022	1,042	999	1,243
Other Comprehensive Income ($M)	n/a	n/a	n/a	(187)	69	(527)	24
Comprehensive Income ($M)	n/a	n/a	n/a	835	1,111	472	1,267
Unappropriated Retained Earnings ($M)	0	657	1,313	1,942	2,800	1,778	3,293
Retained Earnings Set Aside for Capitalization ($M)	3,112	3,406	3,731	4,258	4,376	5,423	5,304
Securitization							
Annual Securities Guaranteed ($M)	29,592	30,374	36,071	57,981	40,000	104,625	167,000
Securitization Guarantees in Force ($M)	80,800	103,709	129,500	165,332	153,100	233,958	372,600
Fees Received ($M)	66	68	85	131	91	228	390
Investments (including cash) ($M)[2]	266	327	396	533	630	25,559	126,117
Borrowings from the Government of Canada ($M)	n/a	n/a	n/a	n/a	0	24,872	126,390
Net Income ($M)[3]	32	42	45	58	61	633	126
Other Comprehensive Income ($M)	n/a	n/a	n/a	(7)	21	(24)	41
Comprehensive Income ($M)	n/a	n/a	n/a	51	82	609	167
Unappropriated Retained Earnings ($M)							
Housing Programs							
Housing Program Expense ($M)							
Affordable Housing Initiative Expenditures ($M)	173	175	167	95	73	98	164
Estimated Households Assisted through long-term Commitments	632,650	633,000	630,000	626,300	628,300	623,700	621,700
Annual New Commitments (units) under Renovations Programs:	25,539	21,990	20,535	19,049	19,916	21,506	18,712
On-reserve	1,484	1,508	2,421	1,171	982	1,063	1,169
Off-reserve	24,055	20,482	18,114	17,878	18,934	20,443	17,543
New commitments On-Reserve Non-Profit Units	978	1,045	4,393	1,442	858		
Lending							
Loans and investments in Housing Programs ($M)	13,669	13,170	12,706	12,341	11,839		
Borrowings from Capital Markets ($M)	9,212	9,467	8,625	8,295	6,718		
Borrowings from the Government of Canada ($M)	5,045	4,899	4,701	4,446	5,881		
Net Income ($M)	43	9	0	(19	18		
Canada Housing Trust							
Assets ($M)	54,975	73,208	96,445	120,122	127,679		
Liabilities ($M)	54,975	73,208	96,445	120,122	127,679		

1 Historical results have been restated to reflect the consolidation of the Canada Housing Trust
2 Excludes investments related to repurchase activities and accrued interest receivable
3 2008 includes $550M in unrealized gains from the fair valuation of the Insured Mortgage Purchase Program, less their corresponding taxes



CONSOLIDATED FINANCIAL STATEMENTS



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Year ended 31 December 2008

CMHC management is responsible for the integrity and objectivity of the consolidated financial statements and related financial information presented in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and, consequently, include amounts which are based on the best estimates and judgement of management. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

In carrying out its responsibilities, management maintains appropriate financial systems and related internal controls within CMHC, and controls as guarantor of Canada Housing Trust, to provide reasonable assurance that financial information is reliable, assets are safeguarded, transactions are properly authorized and are in accordance with the relevant legislation, by-laws of the Corporation and government directives, resources are managed efficiently and economically, and operations are carried out effectively. The system of internal controls is supported by internal audit, which conducts periodic audits of different aspects of the operations.

The Board of Directors, acting through the Audit Committee whose members are not officers of the Corporation, oversees management's responsibilities for financial reporting, internal control systems, and the controls as guarantor of Canada Housing Trust. The Board of Directors, upon the recommendation of the Audit Committee, has approved the consolidated financial statements.

Ernst & Young LLP, and Sheila Fraser, FCA, Auditor General of Canada, have audited the consolidated financial statements. The auditors have full access to, and meet periodically with, the Audit Committee to discuss their audit and related matters.



Karen Kinsley, CA
President and Chief Executive Officer



Michel Tremblay, CA
Acting Vice-President, Corporate Services and
Chief Financial Officer

4 March 2009



Auditor General of Canada
Vérificatrice générale du Canada

ERNST & YOUNG

AUDITORS' REPORT

To the Minister of Human Resources and Skills Development

We have audited the consolidated balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2008 and the consolidated statements of income and comprehensive income, equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act*, the by-laws of the Corporation, and the directive issued pursuant to Section 89 of the *Financial Administration Act* described in note 1 to the consolidated financial statements.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
4 March 2009

CONSOLIDATED BALANCE SHEET

As at 31 December

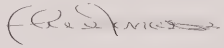
(in millions of dollars)	Notes	Consolidated 2008	2007
ASSETS			
Cash and Cash Equivalents	19	**2,983**	3,470
Investment in NHA Mortgage-Backed Securities:	3		
Designated at Fair Value		**123,737**	96,023
Held to Maturity		**24,767**	-
Investment Securities:	3,22		
Designated at Fair Value		**1,828**	2,086
Available for Sale		**11,676**	10,723
Held to Maturity		**51**	69
Securities Purchased Under Resale Agreements	13	**19,415**	21,373
Loans:	4		
Designated at Fair Value		**7,952**	7,644
Other		**3,381**	3,624
Investments in Housing Programs		**1,007**	1,073
Due from the Government of Canada		**217**	188
Accrued Interest Receivable		**915**	747
Accounts Receivable and Other Assets		**749**	427
Derivatives	5	**4,750**	645
Inventory of Real Estate		**84**	76
		203,512	148,168
LIABILITIES			
Securities Sold Under Repurchase Agreements		**135**	1,049
Securities Sold But Not Yet Purchased		**-**	1,335
Unearned Premiums and Fees		**6,221**	5,386
Accounts Payable and Other Liabilities	7	**438**	376
Accrued Interest Payable		**1,176**	1,018
Derivatives	5	**164**	903
Provision for Claims	8	**676**	552
Future Income Tax Liabilities	6	**223**	95
Borrowings:	10		
Canada Mortgage Bonds		**147,715**	117,719
Capital Market Borrowings		**5,976**	8,295
Borrowings from the Government of Canada:			
Designated at Fair Value		**3,511**	-
Other		**29,107**	4,446
		195,342	141,174
Commitments and Contingent Liabilities	20		
EQUITY OF CANADA			
Contributed Capital		**25**	25
Accumulated Other Comprehensive Income (Loss)		**(276)**	328
Retained Earnings	11	**8,421**	6,641
		8,170	6,994
		203,512	148,168

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Approved by the Board of Directors:



Dino Chiesa
Chairperson, Board of Directors



Sophie Joncas, CA
Chairperson, Audit Committee

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year ended 31 December

(in millions of dollars)	Notes	Consolidated 2008	2007
REVENUES			
Interest Income from NHA Mortgage-Backed Securities		4,846	3,364
Income from Investment Securities		1,539	1,61
Premiums and Fees		1,522	1,4
Interest Earned on Loans and Investments in Housing Programs	2	717	7
Net Gains (Losses) from Other Financial Instruments	3	878	
Net Gains (Losses) from Available for Sale Financial Instruments		14	
Other Income		78	
		9,594	
Parliamentary Appropriations for:			
Housing Programs		2,288	1,91
Operating Expenses		103	10
		2,391	2,02
		11,985	
EXPENSES			
Interest Expense		6,521	
Housing Programs		2,288	1,91
Operating Expenses		385	34
Net Claims		372	
		9,566	
INCOME BEFORE INCOME TAXES		2,419	
INCOME TAXES			
Current		418	
Future		223	
		641	
NET INCOME		1,778	
OTHER COMPREHENSIVE INCOME (Loss) (net of tax)			
Net Unrealized Gains (Losses) from Available for Sale Financial Instruments		(569)	
Reclassification Adjustment for Net (Gains) Losses Included in Net Income		(35)	
		(604)	
COMPREHENSIVE INCOME		1,174	

The accompanying notes to these consolidated financial statements are an integral part of these statement

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

Year Ended 31 December

(in millions of dollars)	Notes	Consolidated 2008	2007
Contributed Capital		**25**	25
Retained Earnings	11		
Unappropriated			
Balance at Beginning of Year		**2,262**	1,555
Effect of Adopting New Accounting Standards for Financial Instruments		**-**	141
Income Tax Benefit on Earnings Set Aside for Capitalization		**2**	4
Net Income		**1,714**	1,089
Set Aside for Capitalization		**(1,165)**	(527)
Balance at End of Year		**2,813**	2,262
Earnings Set Aside for Capitalization			
Balance at Beginning of Year		**4,258**	3,731
Set Aside for Capitalization		**1,165**	527
Balance at End of Year		**5,423**	4,258
Reserve Fund for Lending			
Balance at Beginning of Year		**121**	143
Effect of Adopting New Accounting Standards for Financial Instruments		**-**	(3)
Net Income (Loss)		**64**	(19)
Balance at End of Year		**185**	121
Total Retained Earnings at End of Year		**8,421**	6,641
Accumulated Other Comprehensive Income (Loss)			
Balance at Beginning of Year		**328**	-
Effect of Adopting New Accounting Standards for Financial Instruments		**-**	528
Other Comprehensive Income (Loss)		**(604)**	(200)
Balance at End of Year		**(276)**	328
Total Retained Earnings and Accumulated Other Comprehensive Income		**8,145**	6,969
Total Equity of Canada at End of Year		**8,170**	6,994

The accompanying notes to these consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December

(in millions of dollars)	Consolidated 2008	2007
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net Income	1,778	
Items Not Affecting Cash or Cash Equivalents		
Amortization of Premiums and Discounts	(389)	
Future Income Taxes	219	
Change in Fair Value of Financial Instruments Carried at Fair Value	(938)	
Gain on Sale of Securities	(32)	
Net Change in Non-cash Operating Assets and Liabilities	728	
	1,366	
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Change in HTM and Designated at Fair Value NHA MBS		
Sales and Maturities	34,873	
Purchases	(82,729)	
Change in AFS, HTM and Designated at Fair Value Investment Securities		
Sales and Maturities	13,179	
Purchases	(13,817)	
Reclassification of ABCP from Cash Equivalents	-	
Change in Loans and Investments in Housing Programs		
Repayments	655	
Disbursements	(255)	
Change in Securities Purchased Under Resale Agreements	1,960	
	(46,134)	
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Canada Mortgage Bonds		
Issuances	42,186	
Repayments	(20,350)	
Medium-term Capital Market Borrowings		
Issuances	-	
Repayments	(1,393)	
Change in Borrowings from the Government of Canada Designated at Fair Value a		
Issuances	27,818	
Repayments	(338)	
Change in Short-term Borrowings	(1,423)	
Change in Securities Sold Under Repurchase Agreements	(914)	
Change in Securities Sold But Not Yet Purchased	(1,305)	
	44,281	
Decrease in Cash and Cash Equivalents	(487)	
Cash and Cash Equivalents		
Beginning of Year	3,470	
Inter-entity Elimination	-	
End of Year	2,983	
Represented by:		
Cash	-	
Cash Equivalents	2,983	
	2,983	
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	6,235	
Amount of Income Taxes Paid During the Year	487	

The accompanying notes to these consolidated financial statements are an integ

Consolidated Financial Statements

1. CORPORATE MANDATE

The consolidated financial statements include the accounts of Canada Mortgage and Housing Corporation (CMHC, or the Corporation) and Canada Housing Trust (CHT), a variable interest entity. Within the Public Accounts of Canada, the annual consolidated Net Income increases the government's annual surplus; the consolidated Retained Earnings and Accumulated Other Comprehensive Income reduce the government's accumulated deficit.

CMHC was established as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also subject to Part X of the *Financial Administration Act* (the "FAA") by virtue of being listed in Part I of Schedule III, and is wholly owned by the Government of Canada.

In September 2008, the Corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the *Financial Administration Act* entitled *Order Giving a Direction to Parent Crown Corporations Involved in Commercial Lending to Give Due Consideration to the Personal Integrity of Those They Lend to or Provide Benefits to is in Accordance with Government's Policy to Improve the Accountability and Integrity of Federal Institutions*. The Corporation finalized its review of its policies and programs and, as per the requirements of Section 89(6) of the *Financial Administration Act*, will be notifying the Minister of Human Resources and Skills Development that the directive has been implemented.

The Corporation's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing, and the national well-being of the housing sector. The mandate is carried out through the following four activities:

Insurance: CMHC provides insurance against borrower default on residential mortgages.

Securitization: CMHC guarantees the timely payment of principal and interest for investors in securities based on insured mortgages. The CMHC Guarantee is a direct and unconditional obligation of CMHC as an agent of Canada. It carries the full faith and credit of Canada, and constitutes a direct and unconditional obligation of and by the Government of Canada.

Housing Programs: CMHC receives Parliamentary Appropriations to fund housing programs.

Lending: CMHC makes loans and investments in housing programs which are funded by borrowings. A significant number of these loans and investments are supported with housing program payments.

Canada Housing Trust was established in 2001 as an Issuer Trustee. CHT's functions are limited to the acquisition of interests in eligible housing loans such as NHA Mortgage-Backed Securities (NHA MBS), the purchase of highly rated investments, certain related financial hedging activities and the issuance of Canada Mortgage Bonds (CMB). The CMB are guaranteed by CMHC under its Securitization Activity. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements are summarized on the following pages and conform in all material respects to GAAP.

The following are the significant accounting policies:

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, comprehensive income and related disclosures. Key areas where management has made estimates and assumptions include those related to the fair value of financial instruments (Note 13), employee future benefits (Note 17) and provision for claims (Note 8). Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods.

Basis of Presentation

These consolidated financial statements include the accounts of CMHC and, as required by *Accounting Guideline 15: Consolidation of Variable Interest Entities* (AcG-15), the accounts of CHT, a variable interest entity (VIE) for which CMHC is considered to be the primary beneficiary. The assets and liabilities of CHT are neither owned by nor held for the benefit of CMHC. Inter-entity balances and transactions have been eliminated in the consolidated figures.

Financial Instruments

The Corporation classifies its financial assets in the following categories: designated at fair value, loans and receivables, held to maturity, held for trading and available for sale. Two classifications are used for financial liabilities: designated at fair value and other financial liabilities. The classification is determined by management at initial recognition and depends on the purpose for which the financial assets were acquired or liabilities were incurred.

Classification	Accounting Treatment
Designated at Fair Value	Section 3855 provides an entity the option of designating a financial instrument as HFT on its initial recognition or on adoption of this standard, even if it was not acquired for the purpose of selling or repurchasing in the near term. Financial instruments which belong to a group managed and evaluated on a fair value basis in accordance with documented risk management strategies are designated at fair value under the fair value option. This designation is irrevocable. Financial instruments designated at fair value are measured at fair value. Gains and losses realized on disposition and gains and losses arising from changes in the fair value are recorded in Net Gains (Losses) from Other Financial Instruments. Transaction costs are expensed as incurred.
Available for Sale (AFS)	AFS financial assets are non-derivative financial assets which are designated as such, or which have not been designated in any other classification. AFS financial assets are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in the fair value are recorded in Other Comprehensive Income (OCI) until the financial asset is sold, derecognized, or determined to be other than temporarily impaired. Interest income is recorded using the effective interest method.
Held to Maturity (HTM)	HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that management has the positive intention and ability to hold to maturity. HTM financial assets are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.
Loans and Receivables	Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not debt securities. Loans and Receivables are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.
Held for Trading (HFT)	Derivatives and Securities Sold But Not Yet Purchased are classified as Held for Trading. Derivatives and Securities Sold But Not Yet Purchased are measured at fair value. Gains and losses realized on disposition and gains and losses arising from changes in the fair value are recorded in Net Gains (Losses) from Other Financial Instruments. Transaction costs are expensed as incurred.
Other Financial Liabilities	Other Financial Liabilities are non-derivative financial liabilities which have not been designated at fair value. Other Financial Liabilities are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

Settlement date accounting is used for purchases and sales of financial assets. Realized gains and losses on sales are recognized on a weighted average cost basis.

The Corporation assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. For financial assets classified as HTM that are determined to be other than temporarily impaired, the asset is written down to fair value to recognize the loss and the write down is recorded in Other Income. If an AFS financial asset is determined to be other than temporarily impaired, the unrealized loss recorded in Accumulated Other Comprehensive Income (AOCI) is reversed and recorded in Net Gains (Losses) from Available for Sale Financial Instruments. For Loans and Receivables, it is unlikely that a write down would be required as CMHC is assured full collection of principal and accrued interest through provisions in the Social Housing Agreements, provisions in the *National Housing Act*, Ministerial loan guarantees or the loans are underwritten though CMHC's Insurance Activity in which case provisions for claims are established.

Determination of Fair Value

All financial instruments are recognized initially at fair value. The fair value of financial instruments on initial recognition is based on the transaction price, that is, the fair value of the consideration given or received, net of transaction costs. Accrued interest is separately disclosed for all financial instruments, except for accrued interest related to Third-Party Sponsored Asset-Backed Commercial Paper securities where it is included in the carrying value of the securities.

Active Market:

Financial assets quoted in active markets are measured based on the bid price. This includes Investment Securities (other than Third-Party Sponsored Asset-Backed Commercial Paper), Interest Rate and Equity Index Futures included in Derivatives and Cash Equivalents. Financial liabilities quoted in active markets are measured based on the ask price. This includes Canada Mortgage Bonds, Capital Market Borrowings (other than commercial paper and floating rate notes) and Securities Sold But Not Yet Purchased.

No Active Market:

Financial assets and liabilities not quoted in active markets are measured based on discounted cash flow analysis making maximum use of inputs observable in the market. Financial instruments whose fair value is determined in this manner include Investment in NHA MBS, Investment Securities (Third-Party Sponsored Asset-Backed Commercial Paper only), Loans Designated at Fair Value, Securities Purchased Under Resale Agreements, Derivatives (other than Interest Rate and Equity Index Futures), commercial paper and floating rate notes included in Capital Market Borrowings, those borrowings from the Government of Canada that are designated at fair value and Securities Sold Under Repurchase Agreements.

For all other financial instruments, the carrying value is assumed to approximate fair value due to the short-term nature.

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of cash and short-term, highly liquid investments with an original term to maturity of 98 days or less that are readily convertible to known amounts of cash. Cash Equivalents funded by Securities Sold Under Repurchase Agreements are classified as HTM. Cash Equivalents in the Lending and Insurance Activities are designated at fair value or classified as AFS respectively. Cash Equivalents in the Securitization Activity are either classified as AFS or HTM. Cash Equivalents must have a minimum credit rating of R-1 (Low) or equivalent as determined by S&P, Moody's or DBRS at the time they are purchased.

Investment Securities

Investment Securities in the Lending Activity and CHT are designated at fair value. Investment Securities in the Insurance Activity are classified as AFS. Investment Securities in the Securitization Activity are classified as AFS or HTM. Interest income on fixed income investments is recorded in Income from Investment Securities using the effective interest method. Dividend income is recorded in Income from Investment Securities when the right to the dividend is established.

Investment in NHA Mortgage-Backed Securities

Investment in NHA Mortgage-Backed Securities in the Securitization Activity is classified as HTM. Investment in NHA Mortgage-Backed Securities held by CHT is designated at fair value.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements (Reverse Repurchase Agreements) consist of the purchase of securities, typically government treasury bills or bonds, with the commitment to resell the securities to the original seller at a specified price and future date in the near term. Securities Sold Under Repurchase Agreements (Repurchase Agreements) consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term.

Securities Purchased Under Resale Agreements held by CHT and those entered into with proceeds from Securities Sold But Not Yet Purchased are designated at fair value under the fair value option.

The remainder of Securities Purchased Under Resale Agreements are classified as HTM and Securities Sold Under Repurchase Agreements are classified as Other Financial Liabilities. Proceeds from Securities Sold Under Repurchase Agreements are generally invested in Securities Purchased Under Resale Agreements or cash equivalents for the purpose of generating additional income. Such transactions are entered into simultaneously with matching terms to maturity. The associated interest earned and interest expense are recorded in Income from Investment Securities and Interest Expense respectively.

Loans

Loans that are part of hedged portfolios are designated at fair value under the fair value option.

All other loans are classified as Loans and Receivables. Where loans contain forgiveness clauses, they are recorded net of the forgiveness that is reimbursed through Parliamentary Appropriations when the loans are advanced.

Interest income is recognized using the effective interest method in Interest Earned on Loans and Investments in Housing Programs.

CMHC is reimbursed for interest rate losses resulting from certain loans for housing programs containing interest rate clauses lower than the interest cost on the related borrowings, issued from 1946 to 1984 through provisions of the *National Housing Act*. These appropriations are voted on an annual basis by Parliament and CMHC has over a 30 year history of past collection of interest losses through appropriations. CMHC measures these loans

at amortized cost which assumes the continued receipt of appropriations going forward. If the appropriations are not received in a future year, the loans would no longer be considered to have been issued at "market rates" and the valuation of these loans would change.

Investments in Housing Programs

Investments in Housing Programs represent CMHC's exposure through loans made to various housing projects and are carried at amortized cost. These financial assets are classified as Loans and Receivables. Interest income on Investments in Housing Programs is recorded in Interest Earned on Loans and Investments in Housing Programs on an accrual basis using the effective interest method. The Corporation's portion of net operating losses and disposal losses on the housing programs is reimbursed through Parliamentary Appropriations.

Derivatives

The Corporation enters into derivatives such as interest rate swaps, foreign currency swaps, interest rate futures and equity index futures in order to manage its exposures to market risks. Swaps are only contracted with creditworthy counterparties that maintain a minimum rating of A- or equivalent as determined by S&P, Moody's or DBRS and are not used for speculative purposes.

Derivatives are classified as HFT as they have not been designated as eligible hedges for accounting purposes and are carried at fair value on the Consolidated Balance Sheet. Derivatives with a positive fair value are reported as assets, while derivatives with a negative fair value are reported as liabilities.

Derivatives may be embedded in other financial instruments and are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not HFT or designated at fair value. CMHC elected a transition date of 1 January 2003 to identify derivatives embedded in existing contracts.

Inventory of Real Estate

Inventory of Real Estate is carried at the lower of cost and fair value. Cost is determined as the acquisition cost, plus modernization and improvement costs where applicable. Fair value is calculated as the current market value of the property, less the discounted value of estimated holding and disposal costs.

For certain properties, net operating losses and disposal losses are reimbursed through Parliamentary Appropriations while net operating profits and disposal gains are returned to the Government of Canada.

For the remaining properties, realized gains and losses on disposal are recorded in Net Claims.

Securities Sold But Not Yet Purchased

Securities Sold But Not Yet Purchased represent an obligation to deliver Government of Canada Bonds which are not owned at the time of sale. These obligations are classified as HFT.

Premiums and Fees

Insurance:
Insurance premiums are due at the inception of the mortgage being insured at which time they are deferred and recognized as income over the period covered by the insurance contract using factors determined by an Appointed Actuary. These factors reflect the long-term pattern for default risk of the underlying mortgages.

Unearned premiums represent the portion of the premiums written that relates to the unexpired portion of the policy at the Balance Sheet date and therefore relate to claims that may occur from the Balance Sheet date to the termination of the insurance policies. Annually, the unearned premiums are compared to an estimate of total future claims on a discounted basis to ensure the amount is sufficient. Should such amount not be sufficient, a provision for premium deficiency would be recorded.

Application fees and direct costs associated with issuing mortgage insurance policies are deferred and amortized on the same basis as the related premiums.

Securitization:
Guarantee fees from the Securitization Activity are received at the inception of the related security issue at which time they are deferred and recognized as income over the term of the security issue on a straight-line basis.

Application fees and direct costs associated with issuing the timely payment guarantees are deferred and amortized over the term of the security issue on a straight-line basis.

Provision for Claims

The Provision for Claims represents an estimate for expected claims and the related settlement expenses, net of the related expected property sale proceeds, for defaults from the Insurance business that have occurred on or before the Balance Sheet date. The provision takes into consideration the estimate of losses on defaults that have been incurred but not reported, the time value of money and in accordance with accepted actuarial practice, includes an explicit provision for adverse deviation.

The establishment of the Provision for Claims involves estimates, which are based upon historical trends, prevailing legal, economic, social and regulatory trends, and expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps significantly, from the estimates made.

The loss on actual mortgage defaults and the change in the estimated Provision for Claims are recorded in Net Claims in the year in which they occur.

Income Taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the estimated tax effect of temporary differences between the carrying value of assets and liabilities on the financial statements and their respective tax bases. The Corporation uses substantively enacted income tax rates at the Balance Sheet date that are expected to be in effect when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

Canada Mortgage Bonds

Canada Mortgage Bonds (CMB), which are issued by CHT and guaranteed by CMHC, are interest bearing bullet bonds. Coupon interest payments are made semi-annually for fixed-rate CMB and quarterly for floating-rate CMB. Principal repayments on the bonds are made at the end of the term. CMB are designated at fair value. The Approved MBS Sellers reimburse CHT for the cost of arranging financing, including the fees paid to CMHC as Guarantor and Financial Services Advisor, underwriters and others for the distribution of CMB.

Capital Market Borrowings

Capital Market Borrowings represent borrowings incurred between 1993 and April 2008. These borrowings are designated at fair value. Issuance costs on Capital Market Borrowings are recognized in Interest Expense in the year incurred.

Borrowings from the Government of Canada

Borrowings Designated at Fair Value:

Since April 2008, the Lending Activity has been borrowing under terms of the Crown Borrowing Agreement. These borrowings are designated at fair value. Issuance costs on Borrowings Designated at Fair Value are recognized in Interest Expense in the year incurred.

Other Government of Canada Borrowings:

Other Government of Canada borrowings represent borrowings in the Securitization Activity as well as borrowings incurred prior to 1993 in the Lending Activity. These borrowings are classified as Other Financial Liabilities and related expenses are recognized in Interest Expense.

Housing Programs

Parliamentary Appropriations for Housing Programs, and the related expenses, are recorded on an accrual basis not exceeding the maximum voted by Parliament. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Employee Future Benefits

CMHC provides a defined benefit pension plan, a supplemental pension plan, and other post-employment benefits consisting of severance pay, life insurance and medical insurance.

Pension benefits are based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The pension benefits are adjusted annually by a percentage equivalent to the total average change in the Consumer Price Index during the previous year. The obligations under employee benefit plans and unamortized related costs, net of plan assets, are accrued.

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected long-term pension plan investment performance, salary increases, retirement ages of employees, mortality of members and expected health care costs. These assumptions are of a long-term nature, which is consistent with the nature of employee future benefits. Actual results could differ from these estimates.

Costs are determined as the cost of employee benefits for the current year's service, interest cost on the accrued benefit obligation, expected investment return on the fair value of plan assets, and the amortization of the transitional asset/obligation, the deferred past service costs and the deferred actuarial gains/losses.

The transitional asset/obligation and past service costs are deferred and amortized on a straight-line basis over the expected average remaining service period of active employees under the plans. The excess of the net actuarial gain/loss over 10% of the greater of the benefit obligation or the fair value of the plan assets is deferred and amortized on a straight-line basis over the expected average remaining service period of active employees under the plans. The expected average remaining service period of the employees covered by the pension plans is 10 years (2007-10 years). The expected average remaining service period of the employees covered by the other post-employment benefits is 12 years (2007-12 years).

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Exchange gains and losses resulting from the translation of foreign denominated balances are included in Net Gains (Losses) from Other Financial Instruments.

Adoption of New Accounting Sections

The Corporation adopted the CICA Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation* on 1 January 2008. The adoption of these new standards resulted in changes to the note disclosures.

Future Accounting Changes – International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of the CICA affirmed its intention to replace Canadian GAAP with IFRS. CMHC will adopt IFRS commencing 1 January 2011, with comparatives for the year commencing 1 January 2010. CMHC has initiated an IFRS transition project.

3. SECURITIES

The following table shows the maturity structure and average yield for Investment in NHA Mortgage-Backed Securities. The NHA MBS maturities are estimated based on assumptions regarding mortgage prepayments (1%) and liquidations (4%), excluding new issuance. Prepayments and liquidations are mortgage principal repayments that are received sooner than the stated amortization period of the mortgage. Both are percentage rate assumptions on principal amounts outstanding, determined by CMHC, and based on historical performance/trends.

(in millions of dollars)	Remaining Term to Maturity					
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	[illegible]	[illegible]
Designated at Fair Value						
Corporate/Other Entities	25,223	55,249	42,598	667	123,737	96,023
Yield[1]	1.86%	1.95%	2.42%	2.32%	2.09%	4.33%
Total Designated at Fair Value	25,223	55,249	42,598	667	123,737	96,023
Held to Maturity						
Corporate/Other Entities	3,474	6,440	14,853	-	24,767	
Yield[1]	5.06%	5.00%	4.88%	-	4.93%	
Total Held to Maturity	3,474	6,440	14,853	-	24,767	

[1] Represents the weighted-average yield, which is determined by applying the weighted-average of the effective yields of individual securities

The following table shows the maturity structure and average yield for Investment Securities.

(in millions of dollars)	Remaining Term to Maturity					
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	[illegible]	[illegible]
Designated at Fair Value						
Corporate/Other Entities	615	498	-	70	1,183	1,46
Government of Canada	317	144	35	-	496	57
Provinces/Municipalities	-	100	-	-	100	
Sovereign and Related Entities	49	-	-	-	49	49
Total Designated at Fair Value	981	742	35	70	1,828	2,08
Yield[1]	2.97%	2.73%	3.40%	-	2.77%	
Available for Sale						
Fixed Income						
Corporate/Other Entities	122	956	708	2,060	3,846	3,28
Government of Canada	485	77	31	521	1,114	
Provinces/Municipalities	78	320	512	2,511	3,421	3,01
Sovereign and Related Entities	41	40	304	620	1,005	
Total Fixed Income	726	1,393	1,555	5,712	9,386	
Yield[1]	2.01%	4.54%	4.67%	4.66%	4.43%	
Equities						
Canadian Equities					1,203	
U.S. Equities					532	
Foreign Equities					555	515
Total Equities					2,290	2,232
Yield[2]					2.92%	
Total Available for Sale					11,676	10,72
Held to Maturity						
Corporate/Other Entities	-	-	-	51	51	69
Total Held to Maturity	-	-	-	51	51	69

[1] Represents the weighted-average yield, which is determined by applying the weighted-average of the effective yields of individual securities

[2] Represents the average yield, which is determined by applying the earned dividend amount of equities to th

The following table shows the unrealized gains (losses) on Investment in NHA MBS and Investment Securities recorded at fair value.

(in millions of dollars)	2008 Amortized Cost	2008 Gross Unrealized Gains	2008 Gross Unrealized Losses	2008 Fair Value	2007 Amortized Cost	2007 Fair Value
Investment in NHA MBS:						
Designated at Fair Value	119,228	4,522	(13)	123,737	95,602	96,023
Investment Securities:						
Fixed Income						
Available for Sale	9,362	251	(227)	9,386	8,362	8,491
Designated at Fair Value	1,812	16	-	1,828	2,087	2,086
Equities	2,674	130	(514)	2,290	1,879	2,232

Sales of investment securities in the Insurance and Securitization Activities resulted in a net gain of $54 million (2007 - $91 million) which has been recorded in Net Gains (Losses) from Available for Sale Financial Instruments. There were no gains/losses (2007 – $1 million loss) associated with the sale of investment securities in the Lending Activity. In addition, there have been no sales of investment securities by CHT.

CMHC has investment securities of $136 million (2007 - $936 million) that have been pledged as security against Securities Sold Under Repurchase Agreements. The terms of these transactions do not exceed 3 months / 93 days, the credit rating of the instruments must be at a minimum of R-1 (mid) and be issued by a financial institution. CMHC continues to earn interest income and recognizes in OCI changes in fair values on these investment securities during the period pledged.

The cumulative loss of $741 million included in Accumulated Other Comprehensive Income (2007 – $85 million) has not been recognized as an impairment loss in Net Income because CMHC believes that the decline in fair value is temporary. Factors reviewed to determine whether an impairment is other than temporary include significant or prolonged declines in fair value, financial reorganization, corporate restructuring, bankruptcies and other indications of liquidity problems, or the disappearance of an active market for the asset because of financial difficulties. During 2008, in addition to the ABCP write down disclosed below, a $12 million loss (2007 – n/a) was recognized in Net Gains (Losses) from Available for Sale Financial Instruments.

Third-Party Asset-Backed Commercial Paper (ABCP)

At 31 December 2008, CMHC held Canadian Third-Party Sponsored ABCP issued by a number of trusts (conduits) with an original cost of $239 million, of which, $60 million was classified as Available for Sale, $102 million as Designated at Fair Value and $77 million as Held to Maturity. At year end 2007, the Corporation held $249 million however, during 2008; two trusts paid their debt in full resulting in the Corporation receiving $10 million. At the dates CMHC acquired these Third-Party Sponsored ABCP, they were rated R-1 (High) by Dominion Bond Rating Service (DBRS), the highest credit rating issued for commercial paper.

In August 2007, the Canadian market for Third-Party Sponsored ABCP became illiquid resulting in these investments not paying on maturity. An agreement, The Montreal Accord (the "Accord"), was reached in August 2007 whereby investors agreed to a standstill, that committed investors not to take any action which would result

in an event of default. On 23 December 2007, the Pan-Canadian Investors Committee (the Committee) reached an agreement in principal on the restructuring of the ABCP. On 17 March 2008, the restructuring plan was filed in the Ontario Superior Court requesting the Court to call a meeting of the Accord ABCP holders to vote on the restructuring proposal. On 25 April 2008, the Accord ABCP holders voted in favour of the restructuring proposal and on 5 June 2008, the Court sanctioned (the Sanction Order) the proposal. On 25 and 26 June 2008, the Ontario Court of Appeal heard motions from Accord ABCP holders seeking leave to appeal and an appeal of the Sanction Order. On 18 August 2008, the Ontario Court of Appeal upheld the Sanction Order and on 19 September 2008, the Supreme Court of Canada upheld the Ontario Court of Appeal Decision. On 19 December 2008, a new agreement to swap the illiquid commercial paper for new longer-term debt replaced the March 2008 restructuring plan. The governments of Canada, Ontario, Quebec and Alberta also agreed to provide $3.5 billion in financial backing to support the new restructuring agreement. In addition, an Ontario Court extended bankruptcy protection for the ABCP to 16 January 2009; the foreign banks were not covered by the court order. The restructuring took place on 21 January 2009 (see Note 22).

In the absence of an active market for Third-Party Sponsored ABCP at 31 December 2008, the fair value of the instruments below were estimated using valuation techniques that included a 100% probability of successful restructuring and weighted discounted future cash flows techniques (taking into account the lack of liquidity).

Based on the information contained in the Information Statement and other publicly available information on the new restructuring agreement, the Corporation estimates that it will receive notes with a face value of:

- $54 million in traditional securitized assets,
- $14 million in ineligible sub-prime assets, and
- $171 million in synthetic assets.

Traditional Securitized Assets:
At 31 December 2008, one of the trusts was holding cash for 99% of its face value. As the Corporation had written this asset down by 2% in 2007, it was determined that no further write down on this asset is required. The remaining 1% of the traditional ABCP was discounted at an AAA Asset-Backed Security rate plus a risk premium for a total discount rate of 6.8% over a 30 year period. No further write down was required in 2008. The total two year write down on these assets is $1 million or 2%.

Ineligible Sub-prime Assets:
In exchange for its holdings of ineligible assets CMHC expects to receive unrated long term tracking notes with various maturity terms. In the absence of information about these notes, the Corporation has taken a 2008 write down of $13 million (2007 - $1 million) on these assets. The total two year write down on Ineligible Assets is $14 million or 100%.

Synthetic Assets:
It is expected that these assets will be pooled into synthetic long-term tracking rate notes that will be divided into senior and subordinated tranches as shown below:

- Class A1 ($84 million) – This senior tranche was discounted as an A rated asset plus a risk premium for a total discount rate of 7.27% over 7 years.
- Class A2 ($70 million) – This second senior tranche was discounted as an A rated asset plus a risk premium for a total discount rate of 7.48% over 8 years.
- Class B ($12 million) – The subordinated note was discounted as a BBB rated asset plus a risk premium for a total discount rate of 12.71% over 8 years.
- Class C ($5 million) – The Corporation has taken a 95% write down on this bottom tranche

The Corporation has taken a 2008 write down of $46 million (2007 - $21 million) on Synthetic Assets. The total two year write down on these assets is $67 million or 39%.

The following table presents the carrying value of ABCP by asset type at 31 December 2007 and 31 December 2008.

	2007			2008		
(in millions of dollars)	Original Cost	Write Down	Carrying Value	Internal Reclassification	Write Down	Carrying Value
Traditional Securitized	56	(1)	55	(2)	-	53
Ineligible Sub-prime	12	(1)	11	2	(13)	-
Synthetic	171	(21)	150	-	(46)	104
	239	(23)	216	-	(59)	157
Accrued Interest Receivable	-	-	-	-	11	11
Accrued Costs	-	-	-	-	(3)	(3)
Total	239	(23)	216	-	(51)	165

In 2008, CMHC adjusted the book value of ABCP by a total $59 million (2007 - $23 million). This adjustment represents Management's best estimate of impairment. The Corporation estimated that it will receive $11 million in interest on these assets from August 2007 to 31 December 2008 and that its share of 2008 restructuring costs will be $3 million. In accordance with CICA Accounting Standard Board staff recommendations, the net receivable of $8 million has been included in the value of ABCP. This resulted in a net loss of $51 million (2007 - $23 million), of which $10 million (2007 - $5 million) is recorded in Net Gains (Losses) from Available for Sale Financial Instruments, $23 million (2007 - $10 million) is recorded in Net Gains (Losses) from Other Financial Instruments and $18 million (2007 - $8 million) recorded in Other Income. At 31 December 2008, the book value of ABCP after impairment, interest and restructuring costs totalled $165 million (2007 - $216 million) of which $44 million (2007 - $54 million) was classified as Available for Sale, $70 million (2007 - $93 million) as Designated at Fair Value and $51 million (2007 - $69 million) as Held to Maturity.

CMHC's valuation was based on its assessment of the prevailing conditions at 31 December 2008, which may change materially in subsequent periods. The most significant factor which may have an impact on the future value of these assets is the discount rates. A 1% decrease (increase) in the discount factor would result in a $9 million increase (decrease) in Income Before Income Taxes.

4. LOANS

Loans

CMHC provides loans either independently or jointly with provincial, territorial, and municipal authorities. Loans were issued for terms up to 50 years and $11,088 million (2007 – $11,062 million) are due beyond five years.

Approximately $10,813 million, representing 95% (2007 – $10,683 million, or 95%) of the loans, are supported with housing program payments outlined in Note 12.

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due.

(in millions of dollars)	2008			
	Within 1 Year	1 to 3 Years	Over 3 Years	Total
	176	13	16	205

At 31 December 2008, CMHC is assured full collection of principal and accrued interest on the majority of the loans from the Provinces and Territories through provisions in Social Housing Agreements (2008 – 44%, 2007 – 45%), the Government of Canada through provisions in the NHA (2008 – 23%, 2007 – 24%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (2008 – 9%, 2007 – 7%). The remainder of the loan portfolio (2008 – 24%, 2007 – 24%) is underwritten through CMHC's Insurance Activity. Provision for losses on these loans is included in the determination of Provision for Claims and Unearned Premiums.

As described in Note 2, CMHC receives interest loss recoveries on certain loans containing interest rate clauses lower than the interest cost on the related borrowings. Of the future cash flows to be received on these loans, approximately 2% (with a fair value of $106 million) will be recovered from the government and the remainder will be recovered directly from the borrowers. The following table presents the estimated recoveries on these loans from the government for the next five years.

(in millions of dollars)	2009	2010	2011	2012	2013
	13	12	12		

Investments in Housing Programs

CMHC makes loans to housing programs either independently or jointly with provincial, territorial, and municipal authorities. The majority of these loans to housing programs are being transferred to the Provinces/Territories under the Social Housing Agreements (SHAs). For the most part, the Provinces/Territories are gradually acquiring CMHC's interest in the housing programs by making payments to CMHC. Once fully reimbursed, CMHC will have no remaining claim on the projects involved.

Approximately $1,007 million, representing 100% (2007 – $1,073 million, or 100%) of the investments in housing programs, are supported with housing program payments outlined in Note 12.

At 31 December 2008, CMHC is assured full collection of principal and accrued interest on its Investments in Housing Programs from the Provinces and Territories through provisions in Social Housing Agreements (2008 – 96%, 2007 – 96%) and the Government of Canada through provisions in the NHA (2008 – 4%, 2007 – 4%).

5. DERIVATIVES

Derivatives are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives (interest rate swaps, foreign currency swaps, interest rate futures and equity index futures) in connection with its risk management activities.

Interest rate swaps are transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged. The value of these swaps is derived from movements in interest rates. They are used to manage reinvestment risk, refinancing risk, or mismatches in the timing of receipts from assets versus payments of liabilities.

Foreign currency swaps are transactions in which two parties exchange currencies and interest cash flows on a specified notional amount for a predetermined period. The notional amount is exchanged at inception and at maturity. The value of these swaps is derived from movements in foreign exchange and interest rates. They are used to manage foreign exchange risk arising from foreign denominated debt.

Interest rate and equity index futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price established by an organized financial market. The credit risk is reduced as changes in the futures' contract value are settled daily. Futures are used to manage asset allocation in the Insurance and Securitization Activities.

The table below provides the notional amounts of the Corporation's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments. The Corporation does not have derivatives embedded in other financial instruments (host contracts) which require separation.

		2008			2007		
(in millions of dollars)	Average Term to Maturity	Notional Amount	Fair Value Asset	Fair Value Liability	Notional Amount	Fair Value Asset	Fair Value Liability
Interest Rate Swaps	4 years	181,523	4,621	157	132,700	645	205
Foreign Currency Swaps	2 years	2,344	129	7	3,737	-	698
Interest Rate Futures		(149)	-	-	(58)	-	-
Total		183,718	4,750	164	136,379	645	903

6. INCOME TAXES

CMHC is subject to federal income tax. It is not subject to provincial income tax. CHT is subject to federal and provincial income taxes on the amount of taxable income for the period and is permitted a deduction for all amounts paid or payable to CHT's beneficiaries in determining income for tax purposes. As all taxable income was distributed to the beneficiaries, no provision for income taxes has been reflected for CHT in these consolidated financial statements.

The following is a reconciliation of the statutory tax rate.

(in millions of dollars)	2008	2007
Income Taxes Computed at Statutory Tax Rate (2008 – 30%, 2007 – 33%)	689	508
Change in Tax Rates on Future Income Taxes	(34)	
Permanent Differences	(11)	(10)
Other	(3)	5
Income Tax Expense	641	504

The following table presents the total income taxes.

(in millions of dollars)	2008	2007
Other Comprehensive Income:		
Net Unrealized Gains/(Losses) on Available for Sale Financial Instruments	(219)	(46)
Reclassification Adjustment for Net (Gains)/Losses Included in Net Income	(18)	
Income Tax Benefit on Other Comprehensive Income	(237)	(83)
Effect of Adopting New Accounting Standards for Financial Instruments	-	
Income Tax (Benefit)/Cost on Earnings Set Aside for Capitalization	(2)	
Income Tax Expense on Consolidated Statement of Equity of Canada	(239)	
Income Tax Expense on Consolidated Net Income	641	504
Total	402	
Total Current Taxes	288	614
Total Future Taxes	114	
Total	402	

The following table presents the tax-effected temporary differences which result in future income tax assets and liabilities.

(in millions of dollars)	2008	2007
Future Income Tax Assets		
Fair Value of Financial Instruments	77	2
Employee Future Benefits	20	16
Unamortized Premiums on Capital Market Borrowings	2	2
Other	5	5
Total Future Income Tax Assets	104	25
Future Income Tax Liabilities		
Insured Mortgage Purchase Program	(183)	-
Fair Value of Financial Instruments	(21)	(43)
Deferred Gains on Disposal of Financial Instruments	(10)	(12)
Provision for Claims	(67)	(56)
Pension Benefits	(20)	(16)
Deferred Issuance Costs	(20)	7
Other	(6)	-
Total Future Income Tax Liabilities	(327)	(120)
Net Future Income Tax Assets (Liabilities)	(223)	(95)

CMHC expects to realize its future income tax assets in the normal course of its operations.

7. ACCOUNTS PAYABLE AND OTHER LIABILITIES

The following table presents the composition of Accounts Payable and Other Liabilities.

(in millions of dollars)	2008	2007
Accrued Housing Program Expenses	173	155
Accrued Benefit Liability for Supplemental Pension Plan and Other Post-employment Benefits	119	104
Deferred Gains	22	-
Obligation Under Capital Lease	17	19
Other Miscellaneous Liabilities	107	98
Total	438	376

8. INSURANCE

Role of the Appointed Actuary

The actuary is appointed by CMHC's management to carry out a valuation of the policy liabilities of the mortgage insurance activity as at 30 September and to provide an opinion to management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with Canadian accepted actuarial practice, applicable legislation, and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a Provision for Claims and Unearned Premiums. In performing the valuation of the liabilities for these contingent future events, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of CMHC and the nature of the insurance policies.

Nature of Provision for Claims

The establishment of the Provision for Claims for mortgage insurance is based on known facts and interpretation of circumstances, and is therefore a complex and dynamic process, influenced by a large variety of factors.

The following factors affect the key actuarial assumptions.

Claim emergence: Claim emergence encompasses claim frequency and claim occurrence patterns. It is based on historical trends in claims and arrears reporting.

Claim severity: Claim severity, or average loss on claims, is dependent on the dollar value of claims, losses on sales of real estate properties, administrative expenses, payment delays and sales delays. These factors are generally based on historical experience.

Economic conditions: Recent past and projected economic factors, such as unemployment rates, mortgage interest rates, and changes in house prices, affect the forecast of future claim levels.

The Provision for Claims consists of projections based on known losses and related expenses. Actual incurred amounts may not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories for which the Corporation has not accumulated sufficient historical experience.

Provisions are reviewed and evaluated at 30 September in light of emerging claim experience and changing circumstances. The resulting changes in the estimated Provision for Claims are recorded in Net Claims in the year in which they are determined.

CMHC determines Provisions for Claims and Unearned Premiums at 31 December using valuation factors from the 30 September valuation, taking into account premiums received and claims paid in the intervening period.

Change in Provision for Claims

(in millions of dollars)	2008	2007
Balance, Beginning of Year	552	454
Impact of Increased Business Volumes	51	22
Change in Assumptions:		
Claim Emergence	-	34
Claim Severity	11	(9)
Economic Conditions	55	(9)
Other	7	60
Balance, End of Year	676	552

CMHC uses Dynamic Financial Analysis (DFA) to model the impact on the Insurance Activity of adverse economic shocks, including recessions. Recessions can involve a combination of adverse mortgage interest rate impacts, high unemployment rate outcomes and deteriorating house prices, each of which will have an impact on the Provision for Claims. In isolation, an increase of 100 basis points in the unemployment rate would be expected to increase the Provision for Claims by about $120 million, while a decrease of 100 basis points in the rate of house price inflation would increase the Provision for Claims by about $10 million and an increase of 100 basis points in mortgage rates would increase the Provision for Claims by about $5 million over a one year horizon. These would be persistent, lasting until the rates revert back to their previous levels.

Changes in actuarial assumptions for claim emergence and claim severity primarily have longer term impacts. It is estimated that for every 5% change in the estimate of future claim severity or every 5% change in the estimate of future claim frequency, the effect on Income Before Income Taxes would be an increase/decrease of approximately $20 million by the end of the Corporate Plan horizon.

The impact of changes in business volumes is also spread out over a number of years, depending on assumptions for claim emergence.

These sensitivities are hypothetical and should be viewed in that light. The relationship of a change in assumption to the change in value may not be linear. Changes in one factor may result in changes in another which might magnify or counteract the sensitivities.

Insurance in Force

Under Section 11 of the NHA, the aggregate outstanding amount of mortgage insurance policies may not exceed $450 billion (2007 – $350 billion). At 31 December 2008, insurance policies in force totalled $408 billion (2007 – $345 billion).

9. SECURITIZATION

CMHC guarantees the timely payment of principal and interest for investors in securities issued by Approved Issuers (primarily lending institutions), on the basis of housing loans through the NHA MBS program and the CMB issued by CHT. CMHC also purchases insured mortgage pools, through reverse auction, using funds supplied by the Government of Canada to help Canadian financial institutions raise longer-term funds and make them available to consumers, homebuyers and businesses in Canada.

CMHC has determined that a provision for claims on these programs is not required. This is based on historical results and program design whereby only insured mortgages are eligible for securitization.

Guarantees in Force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $450 billion (2007 – $350 billion). At 31 December 2008, guarantees in force totalled $234 billion (2007 – $165 billion) which includes $92 billion of CMHC guaranteed NHA MBS (2007 – $47 billion) and $142 billion of CMHC guaranteed CMB issued by CHT (2007 – $118 billion) as summarized in the following table.

(in millions of dollars)	2008[1]	2007[1]
Par Value	139,816	117,161
Fair Value Adjustment	7,719	
Unamortized Premium	180	146
Total	147,715	11

[1] Excludes $1,957 million (2007 - $1,379 million) in investments held by CMHC in CMB issued by CHT

10. BORROWINGS

Canada Mortgage Bonds

The following table summarizes the carrying value and yield for the CMHC-guaranteed CMB issued by CHT based on term to maturity.

(in millions of dollars)	2008 Carrying Value	2008 Yield[1]	2007 Carrying Value
2008	-	-	20,353
2009	13,254	4.14%	13,122
2010	19,426	3.31%	19,029
2011	37,511	4.07%	29,758
2012	38,221	4.43%	35,457
2013	37,216	3.42%	-
2014-2018	2,087	4.11%	-
Total	147,715	3.90%	117,719

(1) Represents the weighted-average yield, which is determined by applying the weighted average effective yields of individual fixed-rate bonds and the weighted-average yields to reset of floating-rate bonds.

In order to meet the principal obligations of the CMB, the principal payments and prepayments from the underlying NHA MBS are held in an account in the name of CHT, managed and reinvested into eligible assets, which include Investment Securities, Cash Equivalents and Securities Purchased Under Resale Agreements, by the swap counterparties pursuant to contractual agreements.

The carrying amount of CMB at 31 December 2008 is $7,885 million higher than the contractual amount due at maturity. CMB are guaranteed by CMHC and CMHC's liabilities are backed by the full faith and credit of the Government of Canada. Therefore, there is no significant change in value that can be attributed to changes in credit risk.

Borrowing Authorities

The Minister of Finance approves CMHC's Borrowing Plan annually and establishes limits and parameters for borrowings. The Borrowing Authorities provide a maximum debt outstanding limit for 2008 of $36.5 billion. This limit includes Capital Market Borrowings and Borrowings from the Government of Canada that were incurred since April 2008 in the Lending and Securitization Activities. Prior to April 2008, CMHC's borrowing activity was governed solely by legislative authority, which does not apply to borrowings of CHT, requiring that the total indebtedness from the capital markets outstanding at any time not exceed $20 billion.

Capital Market Borrowings

The following table summarizes the carrying value and yield for Capital Market Borrowings based on term to maturity. Capital Market Borrowings include U.S. denominated debt. Foreign currency principal and interest payments are fully swapped to Canadian dollar obligations.

(in millions of dollars)	2008 Foreign Currency Borrowings[2]	2008 Carrying Value	2008 Yield[1]	2007 Carrying Value
2008	-	-	-	302
2009	-	1,068	3.53%	1,052
2010	1,584	1,584	3.94%	1,271
2011	988	1,098	4.40%	
2012	-	332	5.53%	317
2013	-	385	4.83%	360
2014-2018	-	1,509	4.33%	1
Total	2,572	5,976	4.18%	8,295

(1) Represents the weighted-average yield, which is determined by applying the weighted-average effective yields of weighted-average yields to reset of floating-rate notes.

(2) Canadian equivalent of U.S. denominated debt.

Included in Capital Market Borrowings are commercial paper and medium-term debt. Commercial paper outstanding is $6 million (2007 – $2,028 million), has an original term to maturity less than 365 days, and a yield of 3.55% (2007 – 4.13%). Medium-term debt includes bonds, floating-rate and fixed-rate notes, with an original term to maturity ranging from two to ten years. Floating-rate notes represent $300 million (2007 – $300 million) of Capital Market Borrowings.

The 2008 interest expense related to Capital Market Borrowings is $302 million (2007 – $414 million).

The carrying amount at 31 December 2008 of Capital Market Borrowings is $438 million higher than the contractual amount due at maturity. CMHC's liabilities are backed by the full faith and credit of the Government of Canada and there is no significant change in value that can be attributed to changes in credit risk.

Borrowings from the Government of Canada

The following table summarizes the carrying value and yield for Borrowings from the Government of Canada based on contractual repayments.

(in millions of dollars)	2008 Borrowings Designated at Fair Value	2008 Yield[1]	2008 Other Borrowings	2008 Yield[1]	2007 Borrowings Designated at Fair Value	2007 Other Borrowings
2008	-	-	-	-	-	
2009	598	1.18%	1,356	3.74%		
2010	-	-	1,363	3.70%		
2011	315	2.99%	1,338	3.44%		
2012	840	3.14%	1,537	3.98%	-	
2013	1,285	3.03%	20,351	3.99%		
2014-2018	473	3.57%	1,026	8.55%	-	
Thereafter	-	-	2,136	9.62%	-	
Total	3,511	2.80%	29,107	4.52%	-	4.44%

(1) Represents the weighted-average yield, which is determined by applying the weighted-average effective y weighted-average yields to reset of floating-rate notes.

Included in Borrowings from the Government of Canada - Designated at Fair Value is short-term and medium-term debt. Short-term debt outstanding is $599 million (2007 – n/a), has an original term to maturity less than 365 days, and a yield of 1.18% (2007 – n/a). Medium-term debt includes fixed-rate notes, with an original term to maturity ranging from two to ten years.

The 2008 interest expense related to Borrowings from the Government of Canada - Designated at Fair Value is $48 million (2007 – n/a) and $538 million (2007 – $416 million) for Borrowings from the Government of Canada - Other.

The carrying amount at 31 December 2008 of Borrowings from the Government of Canada - Designated at Fair Value is $93 million higher than the contractual amount due at maturity. CMHC's liabilities are backed by the full faith and credit of the Government of Canada and there is no significant change in value that can be attributed to changes in credit risk.

Borrowings from the Government of Canada - Designated at Fair Value are not exchanged at market value. On the day of exchange, these borrowings are adjusted to market value and the associated gains/losses are deferred and amortized over the term of the borrowings. These gains and losses are partially offset by the gains and losses arising on Direct Lending loans that are issued at non-market rates. At 31 December 2008, a net deferred gain of $22 million (2007 – n/a) has been recorded in Accounts Payable and Other Liabilities and $0.6 million (2007 – n/a) has been recorded in Net Gains (Losses) from Other Financial Instruments.

11. CAPITAL MANAGEMENT

For capital management purposes and as provided for in the *CMHC Act* and the *NHA*, CMHC considers its capital to be Retained Earnings, comprised of Earnings Set Aside for Capitalization, Unappropriated Retained Earnings and the Reserve Fund for Lending as well as the Contributed Capital.

CMHC's primary objective with respect to capital management is to ensure that it has adequate capital to deliver its mandate while remaining financially self-sustaining and also to follow prudent business practices and guidelines existing in the private sector as appropriate. CMHC capital management is approved annually through its Corporate Plan.

There are no externally imposed minimal capital requirements on CMHC. Earnings Set Aside for Capitalization represent the portion of cumulative Net Income from the Insurance Activity that has been set aside for the purposes of being consistent with mortgage insurance capitalization guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI).

Unappropriated Retained Earnings represent all of the retained earnings of the Securitization Activity and the cumulative Net Income generated by the Insurance Activity that has not been set aside for capitalization purposes.

CMHC places all other retained earnings in its Reserve Fund for Lending. The components of this Reserve Fund are outlined in the following table. There is an externally imposed limit on each of the components. Should the limit be exceeded, CMHC would be required to pay the excess to the Government of Canada.

(in millions of dollars)	2008 Authorized Limit	2008 Balance 31 December	2007 Authorized Limit	2007 Balance 31 December
Reserve for New Financial Instruments Accounting Standards	115	109	50	[illegible]
Reserve for All Other Lending-Related Items	125	76	125	122
Reserve Fund for Lending	240	185	175	12

CMHC has managed its capital as approved in its 2008 Corporate Plan in accordance with the CMHC Act and the NHA. There have been no changes in what is considered to be capital or the objectives of managing capital during the year.

12. HOUSING PROGRAMS

CMHC receives Parliamentary Appropriations to fund the following payments, including operating costs, in support of housing programs.

(in millions of dollars)	2008	2007
Non-Profit Housing	624	618
Public Housing	550	491
On-Reserve Housing Programs[1]	410	106
Rent Supplement	158	[illegible]
Rural and Native Housing	126	134
Renovation Programs	114	116
Affordable Housing Initiative	98	[illegible]
Urban Native Housing Program	91	83
Co-operative Housing	80	81
Limited Dividend Program	11	12
Research and Information Transfer	8	8
Other	18	17
Total Housing Program Expenses	2,288	[illegible]
Operating Costs	103	108
Total Appropriations	2,391	2,0[illegible]

(1) The 2008 Parliamentary Appropriations for On-Reserve Housing Programs includes a $300 million contribution from the Government of First Nation Market Housing Fund (FNMHF). FNMHF was established on 31 March 2008. The F[illegible] of Canada, has a mandate to enable First Nations to gain easier access to private sector hous[illegible] not exposed to the risks and rewards associated with the Fund. The $300 million contributio[illegible] facilitate the establishment of the Fund and CMHC irrevocably re-transferred the same amount to the Fund upon its[illegible]

Of the total amount spent on housing programs, $1,055 million (2007 – $1,138 million) was provided for programs transferred to Provinces/Territories under Social Housing Agreements (SHAs). These amounts are disclosed above based on the original allocation within the agreements which also provide that the Provinces/Territories may reallocate amounts among housing programs. This funding to the Provinces/Territories may become repayable to CMHC if the amounts are not used in accordance with the terms and conditions of the Social Housing Agreements.

Under the SHAs, the Province/Territory assumes CMHC's financial and other obligations with respect to these programs in exchange for a pre-determined annual funding. The accountability framework requires the Province/Territory to provide an Annual Statement of Funding and Expenditures and an Annual Program Performance Report.

Housing Program Expenses also include related party transactions between the Government of Canada and CMHC for the reimbursement of:

- Interest rate losses resulting from certain loans containing interest rate clauses lower than the interest cost on the related borrowings;
- Net operating losses on certain investments in housing programs and real estate properties; and
- Net default losses on certain loans and net disposal losses on certain investments in housing programs and real estate properties.

The following table summarizes the nature of these expenses reimbursed by the Government of Canada.

(in millions of dollars)	2008	2007
Interest Rate Losses	55	60
Net Operating Losses	3	4
Net Default and Disposal Losses	-	3
Total	58	67

The reimbursement for interest rate losses is also included in Interest Earned on Loans and Investments in Housing Programs. Net operating, default and disposal losses are recorded as Due from the Government of Canada and Housing Program Expenses on an accrual basis. The reimbursement of operating costs is shown in the Consolidated Statement of Income and Comprehensive Income as Parliamentary Appropriations for Operating Expenses.

13. FINANCIAL INSTRUMENTS

Financial Instruments Carried at Amortized Cost

Using the valuation methods and assumptions described in Note 2, the following table presents the fair values of financial instruments carried at amortized cost, except where amortized cost is a reasonable approximation of fair value.

	2008		2007	
(in millions of dollars)	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Investment in NHA MBS – Held to Maturity	25,625	24,767	n/a	n/a
Investment Securities – Held to Maturity	51	51	69	69
Loans – Other	4,475	3,381	4,533	3,624
Investments in Housing Programs	1,698	1,007	1,711	1,073
Borrowings from the Government of Canada – Other	32,829	29,107	6,260	4,446

Gains and Losses from Other Financial Instruments

The gains and losses arising from changes in fair value related to financial instruments required to be classified as HFT and designated at fair value are presented in the table below. All derivatives are required to be classified as HFT as they have not been designated as eligible hedges for accounting purposes. In addition, Securities Sold But Not Yet Purchased are required to be classified as HFT. All other financial assets and liabilities in the table below have been designated at fair value under the fair value option.

(in millions of dollars)	2008	2007
Required to be Held for Trading		
Derivatives	4,999	(4
Securities Sold But Not Yet Purchased	30	
Total Required to be Held for Trading	5,029	
Designated at Fair Value		
Cash Equivalent	1	
Investment in NHA Mortgage-Backed Securities – Designated at Fair Value	4,509	
Investment Securities – Designated at Fair Value	16	
Securities Purchased Under Resale Agreements	(1)	
Loans – Designated at Fair Value	399	
Canada Mortgage Bonds	(7,717)	
Capital Market Borrowings	(1,094)	
Borrowings from the Government of Canada – Designated at Fair Value	(166)	
Total Designated at Fair Value	(4,053)	
Total Unrealized Gains/(Losses) from Other Financial Instruments	976	
Realized Gains (Losses) from Held for Trading Financial Instruments	(100)	
Realized Gains (Losses) from Designated at Fair Value Financial Instruments	2	
Total Net Gains (Losses) from Other Financial Instruments	878	

There has been no change in the fair value of Loans - Designated at Fair Value as a result of changes in credit r due to the fact that loans are assured the full collection of principal and interest as detailed in Note 4

Interest Income and Interest Expense

The following table outlines the total interest income and expense calculated using the effective interest method for instruments not designated at fair value.

	2008		2007	
(in millions of dollars)	Income	Expense	Income	Expense
Available for Sale financial assets	415	-	40	
Held to Maturity financial assets	255	-	11	
Securities Purchased Under Resale Agreements	2	-		
Loans - Other	232	-	240	
Investments in Housing Programs	106	-	114	
Securities Sold Under Repurchase Agreements	-	8		
Borrowings from the Government of Canada - Other	-	538		
Total	1,010	546	874	528

Classification of Financial Instruments

The following is a breakdown of Cash and Cash Equivalents and Securities Purchased Under Resale Agreements by Financial Instrument classification:

	2008				2007
(in millions of dollars)	Designated at Fair Value	Available for Sale	Held to Maturity	Total	Total
Cash and Cash Equivalents	2,771	66	146	**2,983**	3,470
Securities Purchased Under Resale Agreements	19,415	-	-	**19,415**	21,373

14. MARKET RISK

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The investment portfolios for the Insurance and Securitization Activities are managed taking into consideration the liability profile and limiting price sensitivity to interest rate changes relative to benchmark indices and by appropriate asset diversification. Interest rate risk associated with the Lending Activity is managed through asset and liability matching, hedging and capital market strategies.

Some of CMHC's Loans and Investments in Housing Programs contain prepayment and/or repricing options. As CMHC does not have the right to prepay its Borrowings from the Government of Canada without penalty, it is exposed to interest rate risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. A 1% shift in foreign exchange rates would have a ± $11 million (2007 – ±$10 million) impact on the investment portfolios and would be recorded in Other Comprehensive Income.

All currency exposure arising from foreign denominated debt issuance is economically hedged in accordance with Corporate policy. As part of its Strategic Asset Allocation policy, the Corporation has assumed currency exposure to further its Insurance and Securitization investment portfolio diversification.

Other Price Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. CMHC is exposed to other price risk through fluctuations in prices of equity investments. The majority of investment assets are actively managed against selected benchmarks derived from a strategic asset allocation. CMHC limits its exposure by using tolerance ranges around the benchmarks for various diversification and exposure measures.

Sensitivity Analysis

Value at Risk: Market risk for AFS financial assets is evaluated through the use of a Value at Risk (VaR) model. VaR is a statistical estimation that measures the maximum potential market loss of a portfolio over a specified holding period with a given level of confidence. The calculation of VaR is based on the Delta-normal method which may underestimate the occurrence of large losses because of its reliance on a normal distribution. The following table shows the VaR for the Insurance and Securitization investment portfolios as at 31 December, with a 95% confidence level over a two-week holding period. The analysis was based on one-year historical data of prices, volatilities and correlations of the various bond and equity markets.

Maximum Exposure: The financial instruments Designated at Fair Value and classified as HFT in the Lending Activity portfolio are exposed to interest rate movements. For Loans – Designated at Fair Value, the impacts of interest rate shifts on the portfolio are not symmetrical. A -200 bps interest rate shift would result in an increase in value of $486 million (2007 – $439 million) whereas a +200 bps interest rate shift would result in a decrease in value of $441 million (2007 – $398 million). For all remaining loans, the impact would be a decrease in value of $756 million (2007 – $778 million). The following table shows the maximum exposure of the Lending Activity portfolio's net interest margin to interest rate movements with a 95% confidence over a one year period as at 31 December. The maximum exposure is limited by CMHC policy to $1.5 million.

The following table shows the VaR and Maximum Exposure estimates and their related financial statement impact.

	2008		2007	
(in millions of dollars)	Net Income	Other Comprehensive Income	Net Income	Other Comprehensive Income
Value at Risk	n/a	227	n/a	124
Maximum Exposure	0.2	n/a	-	n/a

CHT Risks

CHT is exposed to both interest rate risk and prepayment/reinvestment risk. Prepayment/reinvestment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term and these prepayments must be reinvested immediately.

To mitigate these risks, CHT enters into interest rate swap agreements with approved financial institutions. Under these agreements, both interest rate and prepayment/reinvestment risks are transferred to swap counterparties. These swap counterparties manage reinvestment assets in accordance with pre-established investment guidelines. CHT pays all interest received from the underlying assets to the swap counterparties and the swap counterparties pay CHT an amount equal to the CMB coupon payments. As a result of these interest rate swap agreements, changes in interest rates or prepayments/reinvestments have no impact on excess of revenue over expenses.

15. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. CMHC is exposed to credit risk from various sources, including from its investment, lending, derivative and insurance loans and mortgage receivable transactions.

Credit risk associated with the Corporation's investments and derivatives is managed through the implementation of policies which include minimum counterparty credit ratings and investment portfolio diversification limits by issuer, credit rating and by industry sector, and through the use of appropriate legal agreements.

Concentration risk is the amount of credit risk the Corporation is exposed to in relation to specific counterparty and/or industry sectors. CMHC risk management policies address concentration risk from activities where the amount of potential loss can be measured (direct investments, lending and derivative transactions credit risk) at both the individual counterparty level and at the industry sector level and by credit rating. The Corporation's largest concentration of credit risk by individual counterparty is to the Government of Canada (2008 – $3,067 million, 2007 – $3,303 million), and the largest concentration of credit risk by industry sector is to the financial sector (2008 – $3,182 million, 2007 – $2,786 million).

Credit Quality

The following table presents, as at 31 December, the credit quality of the Corporation's Cash Equivalents and Investment Securities (excluding those related to the Insured Mortgage Purchase Program).

	2008			2007		
(in millions of dollars)	AAA [1]	AA- to AA+	Lower than AA-	AAA [1]	AA- to AA+	Lower than AA-
Cash Equivalents	239	120	3	1,434	31	13
Investment Securities:						
Designated at Fair Value	299	507	180	207	586	188
Available for Sale	5,301	3,116	5,125	4,618	2,721	4,764
Held to Maturity	-	-	51	-	-	69

[1] Based on internal credit rating system.

Maximum Exposure to Credit Risk

CMHC's maximum exposure to credit risk is the carrying amount of investment assets held on the Consolidated Balance Sheet.

Securities Purchased Under Resale Agreements: By their nature these balances have a low credit risk as they are largely secured by obtaining collateral from counterparties. Collateral agreements provide for the posting of collateral by the counterparty when CMHC's exposure to that entity exceeds a certain ratings-based threshold. Securities held as eligible collateral include debt obligations issued by or guaranteed by the Government of Canada, including Crown Corporations and CHT. Collateral held to offset mark-to-market exposures from these transactions should not be used for any other purpose than to offset such exposure. In the event of counterparty default, CMHC has the right to liquidate collateral held. The fair value of collateral held by CMHC as at 31 December 2008 totalled $6 million (2007 – $5 million).

Derivatives: CMHC limits its credit risk associated with derivative transacting by dealing with swap counterparties whose credit ratings are in accordance with its Funding, Investment and Risk Management Policies, which are approved by the Board of Directors and are in accordance with Department of Finance Guidelines; through the use of International Swaps Derivatives Association (ISDA) master netting agreements for derivatives which have been entered into with all counterparties; and where appropriate, through the use of ratings-based collateral thresholds in the Credit Support Annexes. The master netting agreements give CMHC a legally enforceable right to reduce derivative exposure through the provision of a single net settlement of all financial instruments covered by the agreement with the same counterparty in the event of default.

The following table presents the Corporation's credit exposure of derivatives by term to maturity (excluding those related to the Insured Mortgage Purchase Program).

	Replacement value [1]				Potential Future Credit Exposure [2]	Total Credit Exposure	
(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		2008	2007
Interest Rate Swaps	10	77	75	114	25	301	109
Foreign Currency Swaps	-	134	-	-	110	244	-
Total	10	211	75	114	135	545	109

(1) Represents the total current fair value of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreement

(2) Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity wi
principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of I

Allowance for Credit Losses

In the event of mortgage default, CMHC may assume the insured mortgage rather than proceed with the acquisition of the property through the claims payment process. In addition, in an effort to minimize future insurance claims resulting from insured mortgages provided to market or assisted housing rental projects, CMHC may make advances to the project in order to help it return to a state where it can manage its mortgage obligations. The allowance for credit losses is established to provide for estimated amounts that may not be recovered. The allowance for credit losses is included as a reduction to Other Assets and any change in the allowance is included in Net Claims. There have been no significant changes in the allowance during the year. At 31 December 2008, the allowance was $109 million (2007 - $99 million) relating to financial assets of $180 million (2007 - $165 million).

Insured Mortgage Purchase Program (IMPP) Risks

CMHC is exposed to credit-related risk in the event of default of swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and collateralization requirements based on credit ratings. The fair value of collateral held by CMHC as at 31 December 2008 was nil (2007 – n/a). The IMPP-related investment instruments are AAA-rated by DBRS.

Derivatives: CMHC enters into swap agreements to manage the risk that the interest earned on its investments may not be sufficient to meet its repayment obligations on Borrowings from the Government of Canada related to the IMPP. With these swaps, all interest payments to CMHC, net of its expenses, are paid to the swap counterparties from which CMHC receives payments equal to the interest it is required to pay on its IMPP-related borrowings.

The following table presents the Corporation's credit exposure of derivatives by term to maturity for the IMPP.

(in millions of dollars)	Replacement value [1] Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Potential Future Credit Exposure [2]	Total Credit Exposure 2008	2007
Interest Rate Swaps	-	-	733	-	-	733	n/a

(1) Represents the total current fair value of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreements.

(2) Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity which is calculated in relation to the notional principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of Financial Institutions.

Investments: Permitted investments are limited to high quality assets, as follows: cash, Government of Canada obligations, Canada Mortgage Bonds, NHA MBS and eligible repurchase agreements of Government of Canada securities, Canada Mortgage Bonds and NHA MBS. Limits to approved sale under repurchase agreement counterparties are determined as a function of credit rating and reported tier 1 capital.

CHT Risks

CMHC is exposed to CHT due to the timely payment guarantee provided on Canada Mortgage Bonds (CMB). CHT is exposed to credit-related risk in the event of default or credit rating downgrade of swap counterparties and through its investments. CHT only holds investment instruments rated R-1 high or AAA by at least two rating agencies.

Derivatives: CHT enters into swap agreements to manage the risk that the interest earned on its investments may not be sufficient to meet its CMB coupon obligations. With these swaps, all interest payments to CHT, net of its expenses, are paid to the swap counterparties from which CHT receives payments equal to the interest it is required to pay on the CMB. In accordance with the requirements of CMHC as guarantor, CHT mitigates this risk by retaining the interest portion of mortgage cash flow payments for counterparties rated below AA-. In addition, ISDA master netting agreements are employed for derivatives, including the requirement for ratings-based collateral thresholds.

The following table presents CHT's credit exposure of derivatives by term to maturity.

(in millions of dollars)	Replacement value [1] Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Potential Future Credit Exposure [2]	Total Credit Exposure 2008	2007
Interest Rate Swaps	314	1,660	1,641	51	617	4,283	974

(1) Represents the total current fair value of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreements.

(2) Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity which is calculated in relation to the notional principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of Financial Institutions.

Investments: Trust permitted investments are limited to high quality assets, as follows: NHA MBS, Government of Canada obligations, cash, asset-backed obligations backed by residential mortgages rated R-1 (High) and eligible repurchase agreements of Government of Canada securities, NHA MBS and bank sponsored ABCP. Limits to approved sale under repurchase agreement counterparties are determined as a function of credit rating and reported tier 1 capital.

CHT is assured full collection of principal and interest on its Investments in NHA MBS through CMHC's guarantee of timely payment of principal and interest. The fair value of collateral held by CHT as at 31 December 2008 totalled $47 million (2007 – $10 million).

16. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation has a liquidity risk policy which includes appropriate limits to ensure sufficient resources to meet current and projected cash requirements. Starting in April 2008, CMHC accessed the Crown Borrowing Program to provide liquidity to meet cash requirements on a daily basis. The Corporation's commercial paper program, the primary source of liquidity until April, remains available to meet cash requirements on a daily basis, subject to approval by the Minister of Finance on a transaction by transaction basis. Further sources of liquidity associated with this policy include overdraft facilities, lines of credits and cash and short-term investments in marketable securities.

The following table presents the undiscounted contractual cash flows payable by the Corporation, including accrued interest, under financial liabilities by remaining contractual maturities.

(in millions of dollars)	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	2008	2007
Securities Sold Under Repurchase Agreements	135	-	-	-	-	**135**	1,050
Canada Mortgage Bonds	-	5,731	12,829	139,097	2,410	**160,067**	134,818
Capital Market Borrowings	6	40	1,247	3,688	1,526	**6,507**	
Borrowings from the Government of Canada	787	496	2,051	31,793	6,256	**41,383**	9,1
Derivatives (net)	540	(318)	(460)	(5,632)	(379)	**(6,249)**	(2,8
Other Financial Liabilities	-	-	-	-	-	**-**	
Total	1,468	5,949	15,667	168,946	9,813	**201,843**	

Commitments related to Loans and Investments in Housing Programs are outlined in Note 20.

Lines of Credit

At 31 December 2008, CMHC had $100 million (2007 – $100 million) of overnight overdraft facility available with its banker that had not been drawn. In addition, CMHC had $450 million (2007 – $450 million) in unused, uncommitted lines of credit. The lines of credit provided for loans based on Canadian prime rate and have no expiry date. During the year, CMHC has not drawn from these lines of credit.

17. EMPLOYEE FUTURE BENEFITS

CMHC provides a defined benefit pension plan, a supplemental pension plan and other post-employment benefits.

The accrued benefit asset for the defined benefit pension plan is included in Accounts Receivable and Other Assets. The total accrued benefit liability for the supplemental pension plan and for the other post-employment benefits is included in Accounts Payable and Other Liabilities. The net benefit plan cost recognized is included in Operating Expenses.

Total cash payments for employee future benefits were $6 million in 2008 (2007 – $16 million). They include contributions by CMHC to its defined benefit pension plan and payments for the unfunded supplemental pension plan. Also therein are disbursements for other post-employment benefits, which consist of payments to a third-party service provider on behalf of retired employees and payments made directly to employees, their beneficiaries or estates.

Information about the employee future benefits is as follows:

	Pension Plans		Other Post-Employment Benefits	
(in millions of dollars)	**2008**	**2007**	**2008**	**2007**
Accrued Benefit Obligation				
Balance, Beginning of Year	**1,248**	1,154	**148**	130
Current Service Cost	**25**	24	**4**	3
Employees' Contributions	**6**	5	**-**	-
Interest Cost	**66**	58	**8**	7
Benefits Paid	**(56)**	(55)	**(5)**	(4)
Actuarial Loss (Gain)	**(150)**	62	**(24)**	(4)
Plan Amendments	**-**	-	**-**	16
Balance, End of Year	**1,139**	1,248	**131**	148
Fair Value of Plan Assets				
Balance, Beginning of Year	**1,293**	1,257	**-**	-
Actual Return on Plan Assets	**(239)**	74	**-**	-
Employer's Contributions	**1**	12	**5**	4
Employees' Contributions	**6**	5	**-**	-
Benefits Paid	**(56)**	(55)	**(5)**	(4)
Balance, End of Year	**1,005**	1,293	**-**	-
Funded Status - Plan Surplus (Deficit)	**(134)**	45	**(131)**	(148)
Unamortized Net Actuarial Loss	**263**	92	**1**	25
Unamortized Past Service Costs	**27**	35	**17**	19
Unamortized Transitional Obligation (Asset)	**(59)**	(89)	**17**	21
Accrued Benefit Asset (Liability)	**97**	83	**(96)**	(83)

Included in the above accrued benefit obligation and fair value of plan assets at 31 December 2008 are the following amounts in respect of plans that are not fully funded:

(in millions of dollars)	Pension Plans		Other Post-Employment Benefits	
	2008	2007	2008	2007
Accrued Benefit Obligation	1,139	31	131	148
Fair Value of Plan Assets	1,005	-	-	
Funded Status - Plan Deficit	(134)	(31)	(131)	(148

The most recent actuarial valuation for funding purposes was done 31 December 2007, and the next regularly scheduled valuation will be no later than 31 December 2010.

The plan assets and the accrued benefit obligation were measured for accounting purposes as at 31 December 2008. In performing this measurement, the following assumptions were adopted:

Accrued Benefit Obligation:		
Discount Rate	6.25%	
Rate of Compensation Increase	3.00%	
Benefit Costs:		
Discount Rate	5.25%	
Rate of Compensation Increase	3.00%	
Long-Term Rate of Return on Plan Assets	6.50%	5.50%

A 9.1% (2007 – 8.3%) increase in health care costs was assumed for 2008, with 0.4% (2007 – 0.4%) average decreases per year thereafter to an ultimate trend rate of 5.1% which is expected to be achieved by 2017.

The following table shows the impact of changes in the assumptions.

(in millions of dollars)	Increase (Decrease) in Accrued Benefit Obligation	Increase (Decrease) in Net Benefit Costs
0.5% Increase/Decrease in Discount Rate		
0.5% Increase/Decrease in Rate of Compensation Increase		
0.5% Increase/Decrease in Long-Term Rate of Return on Plan Assets		
1.0% Increase/Decrease in Health Care Cost Trend Rates		

CMHC's annual net benefit plan costs are as follows:

(in millions of dollars)	Pension Plans 2008	Pension Plans 2007	Other Post-Employment Benefits 2008	Other Post-Employment Benefits 2007
Costs Incurred during the Year				
Current Service Cost, Net of Employees' Contributions	25	24	4	3
Interest Cost	66	58	8	7
Actual Return on Plan Assets	239	(74)	-	-
Actuarial (Gain) Loss on Accrued Benefit Obligation	(150)	62	(24)	(4)
Plan Amendments	-	-	-	16
Total Costs before Adjustments	180	70	(12)	22
Adjustments to Recognize the Long-term Nature of Employee Future Benefit Costs				
Difference between Expected and Actual Return on Plan Assets	(322)	6	-	-
Difference between Actuarial (Gain) Loss Recognized and Actual Actuarial (Gain) Loss on Accrued Benefit Obligation	150	(62)	24	6
Amortization of Past Service Costs	9	9	-	-
Amortization of the Transitional Obligation (Asset)	(30)	(30)	4	3
Plan Amendments	-	-	2	(16)
Total Adjustments	(193)	(77)	30	(7)
Net Benefit Plan Cost (Revenue) Recognized	(13)	(7)	18	15

Information on the defined benefit pension plan assets is as follows:

Category of Plan Assets	Percentage of Fair Value of Total Plan Assets 2008	2007
Short-term Investments[1]	1.92%	1.19%
Bonds and Debentures[2]	28.32%	23.19%
Equities	55.46%	61.01%
Real Return Securities[3]	2.35%	2.51%
Real Estate	11.95%	12.10%
Total	100.00%	100.00%

(1) Includes $18 million (2007 – $8 million) in its related parties.
(2) Includes $51 million (2007 – $29 million) in CMHC and $18 million (2007 - $57 million) in its related parties.
(3) Includes $21 million (2007 – $32 million) in CMHC related parties.

The interest paid by CMHC to the pension plan amounted to $2 million in 2008 (2007 – $1 million). In 2008, there was a net charge in the amount of $3 million (2007 – $3 million) from CMHC to the pension plans for administrative services.

18. SEGMENTED INFORMATION

As described in Note 1, the consolidated financial results include the accounts of CMHC's four activities (Insurance, Securitization, Housing Programs and Lending Activity), each of which provides different programs in support of CMHC's objectives, and the Canada Housing Trust. The financial results of each activity are determined using the accounting policies described in Note 2. The Lending Activity includes certain corporate items that are not allocated to each activity. The Housing Program Activity includes reimbursements to the Lending Activity as described in Note 12. These reimbursements are not eliminated in the table below.

(In millions of dollars)	Insurance		Securitization		Housing Programs		Lending		Canada Housing Trust		Eliminations		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
REVENUES														
Interest Income from NHA MBS	-	-	247	-	-	-	-	-	4,599	3,364	-	-	4,846	
Income from Investment Securities	533	633	163	21	-	-	69	102	840	909	(66)	(46)	1,539	
Interest Earned on Loans and Investments in Housing Programs	-	-	-	-	-	-	717	756	-	-	-	-	717	
Net Gains (Losses) from Other Financial Instruments	(29)	4	732	-	-	-	77	(20)	-	-	98	9	878	
Net Gains (Losses) from Available for Sale Financial Instruments	29	89	1	3	-	-	-	-	-	-	(16)	-	14	
Premiums, Fees, Parliamentary Appropriations and Other Income	1,431	1,348	99	65	2,391	2,020	(1)	(3)	163	140	(92)	(74)	3,991	
	1,964	2,074	1,242	89	2,391	2,020	862	835	5,602	4,413	(76)	(111)	11,985	
EXPENSES														
Interest Expense	8	110	386	-	-	-	761	842	5,432	4,266	(66)	(46)	6,521	
Operating Expenses	182	145	4	4	103	108	18	17	170	147	(92)	(74)	385	
Housing Programs and Net Claims	372	315	-	-	2,288	1,912	-	-	-	-	-	-	2,660	
	562	570	390	4	2,391	2,020	779	859	5,602	4,413	(158)	(120)	9,566	
Income Taxes	(403)	(482)	(219)	(27)	-	-	(19)	5	-	-	-	-	(641)	
NET INCOME	999	1,022	633	58	-	-	64	(19)	-	-	82	9	1,778	
ASSETS														
Investment in NHA MBS:														
Designated at Fair Value	-	-	-	-	-	-	-	-	123,737	96,023	-	-	123,737	
Held to Maturity	-	-	24,767	-	-	-	-	-	-	-	-	-	24,767	
Investment Securities:														
Designated at Fair Value	-	-	-	-	-	-	986	980	842	1,106	-	-	1,828	
Available for Sale	12,857	11,584	685	518	-	-	-	-	-	-	(1,866)	(1,379)	11,676	
Held to Maturity	51	69	94	-	-	-	-	-	-	-	(94)	-	51	
Loans:														
Designated at Fair Value	-	-	-	-	-	-	7,952	7,644	-	-	-	-	7,952	
Other	-	-	-	-	-	-	3,381	3,624	-	-	-	-	3,381	
Investments in Housing Programs	-	-	-	-	-	-	1,007	1,073	-	-	-	-	1,007	
Other Assets	822	1,770	932	53	-	-	1,265	2,153	26,090	22,993	4	(43)	29,113	
	13,730	13,423	26,478	571	-	-	14,591	15,474	150,669	120,122	(1,956)	(1,422)	203,512	
LIABILITIES														
Unearned Premiums and Fees	5,848	5,142	373	244	-	-	-	-	-	-	-	-	6,221	5,386
Borrowings:														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	149,672	119,098	(1,957)	(1,379)	147,715	117,719
Capital Market Borrowings	-	-	-	-	-	-	5,979	8,296	-	-	(3)	(1)	5,976	8,295
Borrowings from the Government of Canada	-	-	24,872	-	-	-	7,746	4,446	-	-	-	-	32,618	4,446
Other Liabilities	878	1,751	309	12	-	-	656	2,586	997	1,024	(28)	(45)	2,812	5,328
	6,726	6,893	25,554	256	-	-	14,381	15,328	150,669	120,122	(1,988)	(1,425)	195,342	
EQUITY OF CANADA	7,004	6,530	924	315	-	-	210	146	-	-	32	3	8,170	

The following table presents the financial information of the Insured Mortgage Purchase Program (IMPP) which forms part of the Securitization Activity.

(in millions of dollars)	2008	2007[1]
REVENUES		
Interest Income from NHA MBS	247	-
Investment Income	139	-
Net Gains (Losses) from Financial Instruments	733	-
Other Income	1	-
	1,120	-
EXPENSES		
Interest Expense from NHA MBS	386	-
Other Expenses	-	-
	386	-
Income Taxes	183	-
NET INCOME	551	-
ASSETS		
Investment in NHA MBS:		
Held to Maturity	24,767	-
Investment Securities:		
Held to Maturity	94	-
Other Assets	862	-
	25,723	-
LIABILITIES		
Borrowings from the Government of Canada	24,872	-
Other Liabilities	300	-
	25,172	-
EQUITY OF CANADA	551	-

[1] The Insured Mortgage Purchase Program was introduced by the Government of Canada in 2008.

19. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. CMHC enters into transactions with certain of these entities in the normal course of business. These transactions are recorded at the exchange amount, which is the amount agreed to by the related parties. All material related party transactions are either disclosed below or in relevant notes.

a) The following table summarizes income earned and receivable as well as the total amount invested in instruments issued or guaranteed by the Government of Canada.

(in millions of dollars)		
Cash Equivalents	1,735	
Investment Income – Cash Equivalents	56	
Interest Receivable – Cash Equivalents	3	
Investment Securities	3,570	
Investment Income – Investment Securities	124	
Interest Receivable – Investment Securities	20	

b) CMHC pays the Government of Canada fees in recognition of the Government's financial backing of its Insurance and Securitization Activities. The fees, which are recorded in Other Income, amounted to $7 million (2007 – $5 million) for Securitization and nil (2007 – nil) for the Insurance Activity. The fee for the Insurance Activity is nil because CMHC's Earnings Set Aside for Capitalization equal 100% of its target capital level calculated in accordance with guidelines set out by OSFI.

20. COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amount to $206 million at 31 December 2008 (2007 – $279 million) and are normally advanced within a two-year period.

b) Commitments outstanding for advances to mortgage insured assisted housing projects in financial difficulty amounted to $31 million at 31 December 2008 (2007 – $57 million) and are normally advanced within a five-year period. Advances in the amount of $24 million are expected to be made over the next five years and the remainder to be advanced beyond five years.

c) Total remaining contractual financial obligations for Housing Programs extend for periods up to 31 years (2007 – 32 years).

Estimated obligations are as follows:

(in millions of dollars)	2009	2010	2011	2012	2013	2014 and Thereafter
	1,770	1,686	1,657	1,648	1,637	

d) In addition to the lines of credit disclosed in Note 16, CMHC has a $63 million (2007 – $63 million) letter of credit outstanding.

e) There are legal claims of $9 million (2007 – $6 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded.

21. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the 2008 financial statement presentation.

22. SUBSEQUENT EVENTS

Third-Party Asset-Backed Commercial Paper (ABCP)

On 16 January 2009, the restructuring plan affecting Third-Party Sponsored ABCP was fully implemented. On 21 January 2009, the Corporation received a combination of MAV 2 notes (series with 100% synthetic or a blend of synthetic and traditional assets) and MAV 3 notes (series secured exclusively by traditional assets and 100% ineligible assets).

On 21 January 2009, a valuation of these new notes resulted in an additional decline in value of $5 million; $3.5 million due to a 0.5% decrease in market interest rates between 31 December 2008 and 21 January 2009 and $1.5 million due to the face value of the notes received being less than forecasted. Additional changes in value subsequent to year end have not been recognized in 2008. In addition, $5.5 million in interest was received by the Corporation on the illiquid ABCP assets from the original date of default to 31 August 2008.

Income Taxes

On 4 March 2009, Bill C-10 received third reading in Parliament. It contains amendments that effect the taxation of financial institutions (as defined in the Income Tax Act). Substantially, these amendments would make the tax legislation for financial institutions consistent with the financial reporting under new accounting standards for financial instruments contained in Section 3855 of the CICA Handbook. The proposed amendments will apply to taxation years that begin after 30 September 2006. At this time, Management is not able to determine the impact these tax measures might have on the consolidated financial statements.



GLOSSARY

Financial Terms

Asset-backed commercial paper (ABCP): A type of corporate short-term debt with a term to maturity of no more than nine months, and generally less than 45 days. The notes are typically backed by financial assets such as trade receivables, auto and equipment loans, and mortgages.

Commercial paper: A type of corporate short-term borrowing with a term to maturity of up to one year.

Covered Bonds: Debt obligations issued by a deposit-taking institution backed by mortgages or cash flows from other debt.

Dynamic Financial Analysis (DFA): A systematic and holistic approach to financial modeling and sensitivity analysis for assets and liabilities that projects financial results under a variety of possible scenarios, showing how outcomes might be affected by changing business and economic conditions.

Hedging: A risk management strategy used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Loan-to-Value Ratio: The ratio of the loan to the appraised value, purchase price or other value ascribed to the property.

Securitization: The process of converting loans or other assets into financial securities which are sold into the capital markets, providing investors with an interest in the pool of loans or assets underlying the security.

Swap: A form of derivative, an interest rate swap is a contractual agreement between two parties to exchange a series of cash flows, generally exchanging fixed rate and floating rate interest payments based on a notional principal amount in a single currency. In the case of a currency swap, principal amounts and fixed and floating rate interest payments are exchanged in different currencies. Swaps are generally used to reduce or eliminate interest rate risk or foreign exchange risk.

CMHC Terms

Canada Housing Trust: The CHT is a legal entity at arm's length to CMHC. CHT acquires interests in eligible housing loans, such as *National Housing Act* Mortgage-Backed Securities, purchases highly-rated investments, undertakes certain related financial hedging activities, and issues Canada Mortgage Bonds (CMBs). CMBs are guaranteed by CMHC. CMHC also acts as the financial services advisor to the CHT, determining market demand for bond issuance, and engaging an underwriting syndicate to underwrite bond issues. CMHC receives a fee from CHT for its services as guarantor and financial services advisor. The day-to-day activities of the CHT are administered through a separate corporate entity serving as the trust administrator. As required under Accounting Guidelines 15 of Canada's Accounting Standards Board, CHT's financial results are consolidated with CMHC's financial statements because CHT is considered a variable interest entity.

Canada Mortgage Bonds (CMB): A bond with either a semi-annual fixed-rate coupon or a quarterly floating-rate coupon that pays principal at maturity. It is issued by the Canada Housing Trust (CHT).

CMHC Affordable Housing Centre: CMHC's centre of excellence for information, guidance and other tools to facilitate the production of affordable housing by non-profit organizations, private sector proponents and others.

emili: An on-line automated mortgage insurance risk and approval system developed by CMHC. It provides virtually instantaneous assessment of mortgage loan insurance applications.

EQuilibrium™ Sustainable Housing Demonstration Initiative: Goals of CMHC's EQuilibrium™ Sustainable Housing Demonstration Initiative:

- Develop a clear vision and approach to develop and promote low environmental impact healthy housing across Canada
- Build the capacity of Canada's home builders, developers, architects and engineers to design and build EQuilibrium™ homes and communities across the country
- Educate consumers on the benefits of owning an EQuilibrium™ home and achieve market acceptance of EQuilibrium™ houses and sustainable communities
- Enhance Canada's domestic and international leadership and business opportunities in sustainable housing design, construction services and technologies.

First Nations Market Housing Fund (FNMHF): The FNMHF is overseen by nine trustees appointed by the Minister for CMHC and the Minister of Indian Affairs and Northern Development. In 2008, the Fund engaged CMHC to administer its operations for its initial five years. The Trustees are accountable to the Minister for CMHC and the Fund will issue its own annual report. The financial results of the FNMHF are not consolidated with CMHC's financial statements.

Granville Island: Granville Island is a cultural, recreational and commercial development in the heart of Vancouver owned by the Government of Canada. CMHC receives a fee to manage and administer Granville Island on behalf of the Government of Canada. Granville Island's finances are not consolidated with CMHC's financial statements.

Housing Quality Initiative (HQI): CMHC delivers tailored training sessions to selected First Nations on client counseling, property management, home maintenance, arrears management, indoor air quality and other topics. The initiative also prepares Aboriginal trainers to deliver the sessions on a continuing basis.

Insured Mortgage Purchase Program (IMPP): In October 2008, as a measure to maintain the availability of longer-term credit in Canada, the Government of Canada announced it would purchase $25 billion in *National Housing Act* Mortgage-Based Securities (NHA MBS) from Canadian financial institutions through a competitive auction process to be managed by CMHC. This IMPP was further enhanced in November 2008 and Canada's Economic Action Plan – Budget 2009. These enhancements would see the government purchase, through CMHC, up to an additional $100 billion in NHA MBS.

***National Housing Act* Mortgage Backed Securities (NHA MBS):** A security which represents an undivided interest in a pool of residential mortgages insured under the *NHA* and which has the full timely-payment guarantee of the Government of Canada through CMHC. The principal and interest paid by borrowers on the mortgages in an NHA MBS pool are paid to investors monthly. These payments can vary from month to month if, for example, borrowers make unscheduled payments, such as advance [illegible] the NHA MBS program are issued by Approved Issuers (primarily lending institutions).

Proposal Development Funding: An interest-free loan of up to $100,000 to cover a variety of project development costs. For example, soil load-bearing tests, environmental site assessments, project drawings and specifications, development permits, and other professional fees are eligible costs. The loan is repaid when mortgage financing is obtained and some of the loan may be forgiven if the project meets certain affordability criteria.

Renovation Programs: Programs that help low income households, landlords, persons with disabilities and Aboriginal people bring their homes up to minimum health and safety standards. CMHC's suite of renovation programs include:

Residential Rehabilitation and Assistance Program (RRAP): A program which provides financial assistance to low income households who live on and off reserve to enable them to repair their homes, as well as to assist landlords to repair rental dwellings or to convert non-residential properties into residential units.

Shelter Enhancement Program (SEP): A program which provides financial assistance to repair; rehabilitate and improve existing shelters, both on and off reserve, for victims of family violence. The program also assists in the acquisition or construction of new shelters and second stage housing.

Emergency Repair Program (ERP): A program which provides financial assistance to low income homeowners or occupants in rural areas to undertake emergency repairs required for the continued safe occupancy of their house.

Home Adaptations for Seniors' Independence (HASI): A program which provides financial assistance to low income seniors to carry out minor adaptations to assist them to live independently in their own homes.

Seed Funding: Consists of a grant and possibly a loan, up to a combined total of $20,000, to groups who are in the early stages of developing affordable housing project proposals. This money can be used to pay for such items as need and demand studies, business plans, exploration of funding sources, evaluation of procurement options, financial viability analysis, environmental site assessment, preliminary design and incorporation of a not-for profit organization. If a loan is part of the Seed Funding, it is repaid when mortgage financing is obtained.

Definitions of Select CMHC Scorecard Measures

OBJECTIVE 1: HELP CANADIANS IN NEED

Measure	Definition
Housing program expenses	Expenses primarily related to social housing programs. These non-profit housing programs, rent supplement programs, the native housing programs and co-operative housing programs ceased in 1993, except for the non-profit housing program on-reserve. Also includes expe the Affordable Housing Initiative, CMHC's renovation programs, and CMHC's research, ma export promotion activities.
Affordable housing units facilitated by CMHC's Affordable Housing Centre	Affordable housing units for which project sponsors have been provided with Seed F Development Funding, and/or CMHC's Affordable Housing Centre development of these units.
Affordable housing units facilitated through CMHC mortgage loan insurance flexibilities	CMHC mortgage loan insurance is provided under more flexible u homeownership and rental units that meet affordability and other cr loan insurance premium may be waived.
Delivery of on-reserve programs and services through First Nation or Aboriginal organizations	% of CMHC Aboriginal housing programs and services provided by Aborigina Calculated as the average of the following: a) % of RRAP accounts delivered by Aboriginal organizations based on number of units b) % of Section 95 commitment inspections and Physical Condition Reviews carried out unc Inspection Services Initiative based on number of units c) % of Aboriginal Capacity Development service contract dollars paid to /
Direct Lending	CMHC provides low-cost loans directly to federally-supported social hou their housing projects and to First Nations to finance new housing product c
Homeowner units insured or facilitated through the adoption of market-based housing finance tools	Homeownership units on reserve where CMHC can demonst Where financing is required, homeownership loans may be insured b
Housing Quality Initiative (HQI)	CMHC partners with selected First Nations to deliver client counseling, property management maintenance, better building techniques, indoor air quality, etc The initiative also dev to deliver the sessions on a continuing basis.

OBJECTIVE 2: FACILITATE ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING FOR ALL CANADIANS

Measure	Definition
Total mortgage loan insurance approved in units	Includes loans for both homeownership and rental units as well as po
Operating expense ratio for mortgage loan insurance (%)	The ratio of operating expenses to total premiums and fees revenue earnec ((Operating expenses) / (earned premiums + fees)) x100
Annual securities guaranteed	NHA Mortgage-Backed Securities (NHA MBS) issued directly into Canada Mortgage Bonds issued for the year.
Operating expense ratio for securitization (%)	The ratio of operating expenses to revenue earned (Operating expenses + Canada Mortgage Bonds related expenses). guarantee fees earned + application and compensatory fee Financial Services Advisors fees earned from Canada Housing
Forecast accuracy of housing starts (%)	The difference expressed as % between CMHC's initial starts fore the actual annual starts for the same year.
Ranking of housing starts forecast accuracy among forecasters	Ranking of the accuracy of CMHC's annual housing starts where 1 is the most accurate forecast

OBJECTIVE 3: ENSURE THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD

Measure	Definition
Revenue from selling CMHC's expertise abroad	CMHC provides consulting services with respect to a wide ra mortgage loan insurance and housing finance for which it earn international clients.

ENSURING A STRONG ORGANIZATION – INTERNAL SERVICES

Measure	Definition
Overall level of employee engagement	The overall level of engagement is based on the res by Towers Perrin ISR in comparison to industry benchmarks To be fully engaged, employees must have: ■ Rational understanding of the organization's strategic goals, values, and ■ Emotional attachment to their organization ■ The motivation and willingness to invest discretionary effort to go above and the organization succeed
Technology index for key systems	Weighted average of monthly availability of key corporate

CMHC Board of Directors

(as at December 31, 2008)

Dino Chiesa, Chairperson
Principal, Chiesa Group, Toronto, ON
Mr. Chiesa was appointed Chairperson of the Board of Directors in March 2005. He is Principal, Chiesa Group commercial property investors, and Vice-Chair of the Board of Trustees of the Canadian Apartment Properties Real Estate Investment Trust (CAP REIT). Prior to this, he was the Assistant Deputy Minister of Ontario's Ministry of Municipal Affairs and Housing, CEO of the Ontario Housing Corporation and Ontario Mortgage Corporation, and was an employee of CMHC from 1975 to 1987. Mr. Chiesa has been a member of the Board since June 2001.

Karen Kinsley, CA
President and Chief Executive Officer, CMHC, Ottawa, ON
Ms. Kinsley is a chartered accountant and joined CMHC in 1987. She has held a variety of positions in management, including Chief Financial Officer, Vice-President, Corporate Services, and Vice-President, Insurance and Securitization. She was appointed President and Chief Executive Officer in June 2003, and re-appointed for three more years in April 2008.

Harold Calla, CGA, CAFM
Surveyor of Taxation, Squamish Nation, North Vancouver, BC
Mr. Calla serves as Chairperson of the First Nations Financial Management Board. He also serves as Director on the Board of Partnerships British Columbia, and Terasen Gas Inc. He was appointed to the Board in June 2005.

Brian Johnston, CA
President, Monarch Corporation, Toronto, ON
Mr. Johnston is a chartered accountant and the President of Monarch Corporation, one of Canada's oldest and largest real estate companies. He is also an active member within the home-building industry and a past president of the Ontario Home Builders' Association. Mr. Johnston was appointed to the Board in January 2008.

Sophie Joncas, CA
Chartered Accountant, St-Hubert, QC
Ms. Joncas is a chartered accountant in private practice. She is a member of the continuing education committee of the Ordre des comptables agréés du Québec (OCAQ). She has also developed and taught courses on governance and on the role of the audit committee for the OCAQ. She was appointed to the Board in August 2001.

E. Anne MacDonald, BA, LLB
Lawyer, Pictou, NS
Mrs. MacDonald has operated a general law practice in the Town of Pictou since 1979. She was the solicitor for the Town of Pictou for 25 years and assisted the town in acquiring and managing its real estate properties. She actively participates in and supports numerous community organizations and charities. She was appointed to the Board in September 2007.

James A. Millar
Associate, Sussex Circle, National Capital Region
Mr. Millar, a career public servant, worked in several government departments, including the Privy Council Office, Manpower and Immigration, the Public Service Commission, and Transport Canada. He joined CMHC in 1998. He retired from CMHC in 2004 as Vice-President, Risk Management and Communications. He was appointed to the Board in April 2007.

Gary P. Mooney, BA, LLB, Phd
Chairman, Fidelity National Financial, Mississauga, ON
Mr. Mooney is Chairman of Fidelity National Financial, a Mississauga-based title insurance company. He is also a senior partner with the law firm Anderson, Sinclair. He was appointed to the Board in June 2005.

André G. Plourde
President, Montreal Real Estate Group. Montreal, QC
Mr. Plourde has been the President of Montreal Real Estate Group since 2001. Mr. Plourde is active within the commercial real estate industry as a member of the Urban Development Institute of Quebec and the *Association des courtiers et agents immobiliers du Québec*. He was appointed to the Board in April 2008.

Joel Teal
President, Dundee Developments/Homes by Dundee, Saskatoon, SK
Mr. Teal is President, Dundee Developments/ Homes by Dundee and is Chair of the Board of the SaskPower. He began his career with CMHC, where he held several management positions in Saskatoon, Regina, Hamilton, and Ottawa. He previously served as a member of CMHC's Board of Directors from 1985 to 1991. He was appointed to the Board in October 2006.

CMHC Management

(as at December 31, 2008)

NATIONAL OFFICE

Karen Kinsley
President and Chief Executive Officer

Mark McInnis
Vice-President, Insurance Underwriting, Servicing and Policy

Sharon Matthews
Vice-President, Assisted Housing

Pierre Serré
Vice-President, Insurance Product and Business Development

Douglas Stewart
Vice-President, Policy and Planning

Gail Tolley
Vice-President, Human Resources

Michel Tremblay
Acting Vice-President, Corporate Services and Chief Financial Officer

André Asselin
Executive Director, CMHC International

Charles Chenard
Executive Director, Corporate Marketing

Anne Dawson
Executive Director, Communications

Gilles Proulx
Executive Director, Risk Management and Investments

Serge Gaudet
Director, Audit and Evaluation Services

Douglas Tyler
General Counsel

Luc Fournier
Corporate Secretary

REGIONAL BUSINESS CENTRES

Carolyn Kavanagh
General Manager, Atlantic Business Centre

Sylvie Crispo
General Manager, Québec Business Centre

Peter Friedmann
General Manager, Ontario Business Centre,
and Managing Director, Securitization

Trevor Gloyn
General Manager, Prairie and Territories Business Centre

Lucia Su
Acting General Manager, British Columbia Business Centre
(as of December 2, 2008)

CMHC Offices

NATIONAL OFFICE

700 Montreal Road
Ottawa, Ontario
Canada, K1A 0P7
(613) 748-2000

REGIONAL BUSINESS CENTRES

Atlantic

1894 Barrington Street, 9th Floor
Halifax, Nova Scotia, B3J 2A8
(902) 426-3530

Quebec

1100 René-Lévesque Blvd West, 1st Floor
Montreal, Quebec, H3B 5J7
(514) 283-2222

Ontario

100 Sheppard Avenue East, Suite 300
Toronto, Ontario, M2N 6Z1
(416) 221-2642

Prairie and Territories

1000 – 7th Avenue SW, Suite 200
Calgary, Alberta, T2P 5L5
(403) 515-3000

British Columbia

1111 West Georgia Street, Suite 200
Vancouver, British Columbia, V6E 4S4
(604) 731-5733

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CANADIAN HOUSING AT WORK

CMHC SCHL
HOME TO CANADIANS

Canada

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Do you know why housing is so important to the economy?

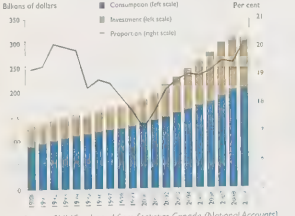
Housing-related spending contributed just over **$307 billion to the Canadian economy** in 2009 or about **20% of Canada's Gross Domestic Product.** About $207 billion of this is housing-related consumption expenditures which include items such as rent, mortgage interest, property taxes, utilities and routine maintenance. Housing-related investment, which includes spending on new construction, renovations, and transfer costs, totalled more than $100 billion in 2009. *(Source Statistics Canada)*

Two-thirds of Canadians are homeowners and 6 out of 10 have a mortgage. *(Source Statistics C...*

On average, for every home that is sold, **an additional $46,000 is spent** on furnishings and other household goods. MLS® sales account for **$22.3 billion in spin-off activity** and over **200,000 jobs** annually.

...$53 billion ... maintaining their homes in 2008 *(Source CMHC)*

Housing-related spending level and proportion of GDP continue to rise

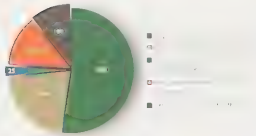


Source: CMHC, adapted from Statistics Canada (National Accounts)

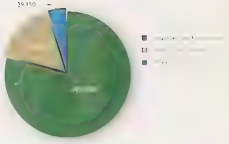
CANADA'S ECONOMIC ACTION PLAN

Investing in **social housing** HELPS **Canadians** in need while also **creating jobs** and **economic growth** for the country

Year one funding through CMHC ($M)



$950 million committed by CMHC for social housing under Canada's Economic Action Plan – over 1,700 projects underway as reported in the Fourth Report to Canadians, December 2009



CMHC assisted 620,000 households through ongoing federal funding for social housing.

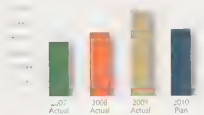
	(units)
Affordable Housing Initiative	3,810
Renovation Programs	18,000
Affordable Housing Centre	3,160
On-Reserve Non-Profit Rental Housing Program	822





Maintaining a **strong** and healthy **housing finance** system so that **Canadians** can **continue** to obtain affordable mortgage financing

Mortgage loan insurance approved (units)



CMHC's steadfast presence in the mortgage loan insurance market provided Canadians with access to financing. Of the total of the approved high ratio homeowner and rental units, 40% were for purposes or areas not served or less well-served by private insurers

Securities guaranteed ($M)



Flexible and cost effective securitization guarantee programs continued to facilitate low-cost funds for mortgage lending.

Net Income fell in 2009 due to the impact of economic conditions on mortgage loan insurance claims. However, CMHC remains on solid financial ground.

Financial performance ($M)	2007 Actual	2008	2009	2009	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Assets	[illegible]	175,279	205,481	264,556	[illegible]
Total Equity of Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revenues	9,320	11,738	15,966	13,164	15,359
Expenses	7,746	9,319	14,501	11,939	[illegible]
Income Tax	504	641	552	294	357
Net Income	1,070	1,778	1,353	931	911



Abondance™ Home
Montreal, Quebec

Contributing to **stronger communities** and **ensuring** an **innovative** housing sector that is able to meet the changing needs of **Canadians**

Over **1.2 million** housing **information products** distributed. Over **90% of attendees** to market outlook conferences and information transfer seminars **found them useful.** Seven EQuilibrium™ homes now open for public viewing.

Key export clients reported strong **satisfaction** and CMHC facilitated sales of $122.1 million in 2009.

Value of export sales facilitated by CMHC for key clients ($M)



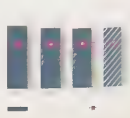
Investment rate return (%)



Equity of Canada grew by 13% in 2009 ($M)



Minimum Capital Test



About CMHC

For over 60 years, Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency. Established as a federal Crown corporation in 1946 to help address post-war housing shortages, our role has evolved as Canadians' needs have changed. Today, we work closely with provinces, territories and the private and not-for-profit sectors to help lower-income Canadians access affordable, better quality housing. We also help Aboriginal Canadians meet their distinct housing needs.

Our role in housing finance – providing mortgage loan insurance and securitization guarantee products – contributes to the health and stability of Canada's housing finance system and facilitates access to financing for housing across the country. This includes loans for housing in small and rural communities and for nursing and retirement homes.

We also promote the efficiency of the Canadian housing system through research, market analysis, information transfer and export promotion.

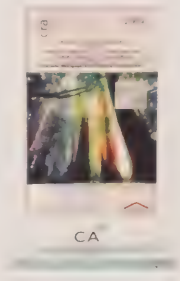
We take pride in our history and, through a wide range of housing programs, products and services, we strive to keep Canadian housing AT WORK so that families can have a place to call home.











Our objectives and strategic priorities

		STRATEGIC PRIORITIES
Objective 1	Help **Canadians in need**	1.1 Help Canadians in need access affordable, sound and suitable housing 1.2 Support Aboriginal Canadians to improve their living conditions
Objective 2	Facilitate Access to More Affordable, Better Quality Housing for **ALL** Canadians	2.1 Ensure that Canadians have access to mortgage loan insurance products and tools that meet their needs 2.2 Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program 2.3 Provide comprehensive, timely and relevant information to enable Canadian consumers as well as the housing sector to make informed decisions
Objective 3	Ensure the **Canadian housing system** Remains One of the Best in the World	3.1 Promote sustainable housing and communities 3.2 Support and promote Canada's world-class housing products, services and system internationally

Our programs, products and services

- Federal funding for social housing and renovation programs for lower-income Canadians
- Housing programs for Aboriginal Canadians living on reserve
- Mortgage loans (Direct Lending) to federally-sponsored social housing projects
- Information, advice and financial assistance to groups seeking to develop more affordable housing
- Research into housing needs and solutions

- Mortgage loan insurance products to protect lenders against losses in the event of default for both homeowner, rental property loans and affordable housing projects
- Securitization guarantee programs – *National Housing Act* Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bonds (CMBs)
- Insured Mortgage Purchase Program (IMPP)
- Market analysis reports, housing outlook conferences, market forecasts, consumer-oriented housing information
- Research studies, grants and awards

- Research and demonstration projects, including the EQuilibrium™ Sustainable Housing Demonstration Initiative
- Export promotion activities designed to help Canadian exporters attain greater market diversification and representing Canada on housing matters on the international stage

Additional information can be found in the Glossary or on CMHC's website at www.cmhc.ca

Our values

We lead by example. We honour our obligations and are committed to:

Serving the public interest

As stewards of the public trust, we serve with fairness, impartiality and objectivity. All of our activities, including those that are commercial in nature, are carried out in support of our public policy objectives. Our actions are inspired by a respect for human dignity and the value of every person.

Achieving business excellence

We exercise the highest standards of competence, trustworthiness and prudence in conducting our business relationships and in managing the financial, physical and human resources entrusted in our care. We encourage learning, innovation and personal initiative to continuously improve the way we do business.

Building a workplace community

We practice mutual respect and honesty in our working relationships. We help each other achieve the goals of the team and the organization, and we strive to maintain a healthy balance between our CMHC work and other parts of our lives. We willingly explain our actions so that we may hold ourselves and each other accountable for living these values in the workplace.

Our structure

CMHC is governed by a Board of Directors appointed by the Government of Canada and we report to Parliament through the Minister of Human Resources and Skills Development. CMHC Management is comprised of the President and Chief Executive Officer, heads of business areas and support functions and regional centre General Managers. (See Other Disclosures and Information for list.) We have a workforce of approximately 2,000 employees. Our national office is located in Ottawa and our regional business centres are in Halifax, Montreal, Toronto, Calgary and Vancouver. Individual CMHC employees also serve as points of contact for several smaller and rural communities.

CMHC provides management, advisory and other services to the Canada Housing Trust, to the First Nations Market Housing Fund and to the Government of Canada with respect to administering Granville Island. Only the financial results of the Canada Housing Trust are consolidated with CMHC's financial statements. For further information, see Glossary.



Messages

- Chairperson
- President and Chief Executive Officer



CHAIRPERSON'S **MESSAGE**

On behalf of CMHC's Board of Directors, I am proud to present our 2009 Annual Report – *Canadian Housing at Work* – which builds on CMHC's commitment to excellence in managing and reporting on the results of our housing programs and activities.

There is no doubt that 2009 was a tumultuous year for both the Canadian economy and for individual Canadians. We entered the year in an economic downturn and a global liquidity crisis to an extent not experienced since the Great Depression. Governments around the world, including the Government of Canada, took action in order to create jobs and economic growth.

Governments around the world, including the Government of Canada, took action to create jobs and economic growth.

Canada's Economic Action Plan (CEAP) made available through CMHC close to $2 billion for social housing construction and renovation and up to $2 billion in low-cost loans to help finance housing-related municipal infrastructure over two years. In order to deliver on these CEAP investments, CMHC worked closely with its provincial and territorial partners, municipalities, First Nation communities, the not-for-profit sector, other federal departments and stakeholders throughout the year. We also maintained our steadfast presence in the Canadian housing finance market by providing mortgage loan insurance for qualified borrowers right across the country and helped improve the liquidity position of Canadian lenders so that they could continue to lend to both consumers and businesses.

Canadians received regular reports from the Government of Canada on the progress made against CEAP. CMHC's Board of Directors also monitored take-up of CEAP social housing dollars and low-cost loans for housing-related municipal infrastructure projects through both quarterly performance reports and reports provided by the President at each meeting. The progress we have made in such a short time is nothing less than remarkable. The long-standing partnership between CMHC and provinces and territories, once again, was called upon. We look forward to continuing to work with them as well as with First Nations and many others as we enter the second year of CEAP, and as we continue to help Canadians in need through our core social housing activities.

The economic downturn also affected our mortgage loan insurance and securitization guarantee activities. With the global credit crunch, lenders turned to CMHC to insure and securitize mortgage loans in order to increase access to funds to lend to consumers and businesses. And, as expected, claims were also higher in 2009.

We are confident, however, that our risk management practices and oversight will help ensure Canadians will continue to enjoy one of the soundest housing finance systems in the world.

The Board of Directors is committed to conducting our business in an open and transparent manner and this commitment is at the heart of all of the decisions that we make. Our efforts were recognized in 2009 by the Canadian Institute of Chartered Accountants who presented CMHC with the Award of Excellence in Corporate Reporting for Large Crown Corporations for our 2008 Annual Report, *Enduring Commitment, Proven Results*. Everyone at CMHC can be extremely proud of winning this award.

Governing in an open and transparent way also means obtaining feedback from Canadians. To that end, we held our first ever Annual Public Meeting in Kitchener-Waterloo this year, in conjunction with the first of our two Board of Directors meetings outside of Ottawa. The second meeting was held in Vancouver. These meetings provide us with opportunities to listen to housing stakeholders and to visit housing projects or other sites that are important to our mandate. They are also opportunities for the Board to engage with staff outside of Ottawa.

I am proud that CMHC received a number of employer awards in 2009, including being one of Canada's Top 100 Employers, as well as one of the Best Diversity Employers. CMHC's success is truly dependent on its workforce and most certainly on the leadership of CMHC's President, Karen Kinsley, who won the Ottawa Business Journal CEO of the Year Award and, for the second consecutive year, was named by the Women's Executive Network™ to be among *Canada's Most Powerful Women Top 100 Winners*.

The Board of Directors recognizes the passion and commitment of CMHC's employees during this extremely busy and productive year. As we look ahead, I am confident we will continue to uphold our commitment to helping improve the lives of Canadians while also maintaining high standards of governance and regard for the environment. I look forward to meeting the challenges of 2010.



Dino Chiesa
Chairperson

CMHC received a number of awards in 2009 including the Canadian Institute of Chartered Accountants' (CICA's) Award of Excellence in Corporate Reporting for Large Crown Corporations and MediaCorp's Top 100 Employers in Canada.



PRESIDENT'S **MESSAGE**

Canadian Housing at Work truly reflects what 2009 was about. In setting the course for recovery, Canadian housing became part of the solution. Accounting for 20 per cent of Canada's Gross Domestic Product (GDP) and having shown remarkable resiliency in the face of global economic turbulence, Canadian housing and housing-related municipal infrastructure created jobs for the Canadian economy when needed the most.

Canada is fortunate to have one of the best housing systems in the world – one that provides good housing for a wide spectrum of needs. Housing is an important component of the federal government's 2009 Budget: Canada's Economic Action Plan (CEAP). Over the next two years, out of $7.8 billion in housing-related measures, close to $2 billion will be provided through CMHC to build or to retrofit social housing for low-income Canadians. We will also provide up to $2 billion in low-cost loans to municipalities for housing-related infrastructure.

I am proud that CMHC took up additional responsibilities with vigour while also achieving the vast majority of goals we set for our ongoing activities.

Canada's Economic Action Plan will help house low-income Canadians, seniors, persons with disabilities, families in First Nation communities and in the North.

Immediately following the federal budget at the end of January, getting provincial and territorial partners on board became a priority. We were successful in putting agreements in place within a few short months of the beginning of the 2009-10 fiscal year. As reported in the Fourth Report to Canadians on Canada's Economic Action Plan released in December 2009, CMHC has committed a total of $950 million towards social housing and made available up to $1 billion in low-cost loans for housing-related municipal infrastructure.

This was no easy feat. We understand the challenges that our social housing partners face. But we shared one collective goal – to use this one-time funding to help house Canadians, to give them a better, more affordable place to call home and to build stronger, healthier communities.

Mortgage-Backed Securities guaranteed under the *National Housing Act* also played an important role amongst federal measures to improve access to financing in the face of the global credit crunch which began in 2008. While healthy balance sheets and a sound regulatory system meant that Canadian lenders fared better than lenders in many other countries, we operate in a global economy and are not unaffected by what happens outside our borders.

In order to address these challenges, the Government of Canada introduced in October 2008, a $25 billion Insured Mortgage Purchase Program. Under this program and subsequent enhancements, CMHC could purchase from lenders up to $125 billion in NHA Mortgage-Backed Securities backed by insured loans. At the height of the credit crunch, Canadian lenders made full use of the program and continued to see it as a valuable option in managing their funding needs in the face of ongoing global pressures. The program's scheduled termination was extended from September 2009 to March 2010.

These measures are in response to extraordinary times, but the investments that are being made in social housing and in municipal infrastructure will endure for the benefit of all Canadians.

I am also proud that CMHC met the majority of its goals for all other ongoing core activities. We provided funding for social housing and implemented the two-year extension of the Affordable Housing Initiative (AHI) and our renovation programs. Six-hundred and twenty thousand (620,000) families were assisted through socia housing with long-term subsidies and 3,810 new social housing units were created under the AHI. Our renovation programs assisted some 18,000 lower-income households to undertake needed repairs to their homes.

Ongoing social housing subsidies helped 620,000 families access affordable housing; 3,810 new social units were created under the AHI, and 18,000 families or rental property owners received assistance to repair or to rehabilitate their properties.

We exceeded planned mortgage loan insurance volumes and met market demand for our securitization products. Adoption of principles demonstrated through our EQuilibrium™ Sustainable Housing Demonstration Initiative has begun to take hold with a builder now marketing homes based on EQ™ principles and others taking steps in that direction. Over 1.2 million copies of CMHC information products on a range of housing topics were distributed to Canadians. In addition, our support to housin exporters in these difficult economic times proved valuable as we exceeded our facilitated-sales target.

The challenging economic climate in 2009 resulted in an increase in provisions for mortgage loan insurance net claims, which was not anticipated when our target was set in mid-2008. This increase in the provisions for claims is, in part, responsible for the Corporation not achieving its net income target of $1.353 billion. The rate of arrears on CMHC-insured loans, however, remains historically low and is trending in the same direction as rates currently experienced by lenders in general. We also continue to be on solid financial ground due to our rate of capitalization which is approximately double the rate required by the Office of the Superintendent of Financial Institutions for private insurers.

While CEAP measures will continue to be the focus in the coming year, we do have an eye on the future. The two-year extension of the Affordable Housing Initiative and our renovation programs, part of the federal government's five-year funding commitment to housing and homelessness programs, runs until March 2011. We are working closely with Human Resources and Skills Development Canada on developing options for the federal government to consider for the last three years of funding. I am confident that the next generation of federal housing and homelessness programs will build on the lessons learned and bring further benefits to Canadians. CMHC will also continue to assist provinces and territories to assess the long-term viability of pre-1993 social housing units.

CMHC's long-standing role in helping First Nations address housing needs will also continue to be a priority for us. Our regular programming resulted in an additional 822 non-profit rental housing units being developed and some 1,190 units renovated or rehabilitated this year for First Nation families. While these and CEAP investments will help address the housing shortages on reserve, enhancing First Nations' capacity and access to private financing are also critical to success in the long term.

The state of the economy will drive housing and mortgage markets going forward. While we expect that the economic recovery will bring increased competition in the mortgage loan insurance market, we will remain steadfast in our commitment to prudent underwriting, to improving our risk management tools, to providing excellent client service and to ensuring that Canadians have access to housing finance that meets their needs in a responsible manner.

As we look ahead, we are confident that the Canadian housing system will continue to serve Canadians well. Housing is truly working for Canadians and so is CMHC. To CMHC's dedicated employees who excelled in a year where heavy demands were made of them, you have my gratitude and respect. To our shareholders – the Canadian people – you have the continuing commitment of CMHC to keep our housing system strong.



Karen Kinsley, FCA
President and Chief Executive Officer



Showcases

- Social housing AT WORK
- A strong housing finance system AT WORK
- AT WORK building sustainable communities

For CMHC, it has always been about helping Canadians to have a place they can call home. In Canada's Economic Action Plan, the Government of Canada through CMHC increased its investment in social housing to help the most vulnerable in our society – low-income families, seniors, persons with disabilities, First Nations and northern communities. It also asked CMHC to manage a new Municipal Infrastructure Lending Program to provide low-cost loans to fund housing-related municipal infrastructure. These one-time, targeted investments will pay off today through the jobs and economic spin-offs they produce and will benefit needy Canadians for many years to come.

CMHC is playing a major role in overseeing investments while also maintaining our resolve to strengthen Canada's housing finance system and to promote sustainable housing solutions and communities. These stories invite you to see how these investments are being used to make a difference in the lives of Canadians and demonstrate how CMHC is putting Canadian housing at work for them as well as for the general economic and social well-being of the country.



Social housing AT WORK

In a few short months since the launch of CEAP social housing initiatives, over 1,700 projects are underway across Canada including in some 300 First Nation communities. Here are just a few:

Renovating and making social housing more energy efficient

Across Canada, there are thousands of low-income families living in social housing units developed over several decades since 1946. Renovating and increasing the energy-efficiency of these units while also improving living conditions for their residents is economically, environmentally and socially responsible.

The Haney Pioneer Village Co-operative in Maple Ridge, British Columbia (about 45 km to the east of Vancouver) has provided homes to some 84 senior households since the early 1970s. CMHC provided $208,462 to replace outdated single-pane windows with double-pane Energy Star® windows.



Workers installing new windows at the Haney Pioneer Village Co-operative.

"Not only will this funding make our co op more energy efficient, it will also help ensure these homes are available to meet the needs of future generations."
Richard Silver, President, Haney Pioneer Village

The **Piikani Nation** is located on Peigan Indian Reserve 147 in southern Alberta and is part of the Blackfoot Nation. Through CEAP, the First Nation received $853,000 to improve housing conditions for their community. The funding will contribute to the retrofit of 41 social housing units.



"CEAP has been instrumental in assisting the Piikani Nation…train and employ up to 35 Piikani Nation members, kick-start our market housing strategy and most importantly improve our living conditions."

Reg Crowshoe, Piikani Nation Chief

Left to right: Ted Menzies, MP for Macleod, Chief Reg Crowshoe, Evan Berger, Alberta Ministry of Employment and Immigration, Jim Swagg, Adam North Peigan and Herman Many Horse (Band Councillors)

Renovations are underway at the **Coopérative d'habitation Place des Lilas** in Jonquière, Quebec thanks to funding received under CEAP. The cooperative will receive $401,310 to replace an aging heating system and windows in their 32-unit project. These renovations are expected to improve the comfort of residents as well as add years to the life of the project which provides housing to families and single person households.

"The financial contributions provided under CEAP through CMHC will benefit the residents of Place des Lilas and will help ensure the quality of life of our families. We are very pleased to have received this funding which will help improve the comfort and safety of our residents."

Louis Boily, Chair, Board of Directors, Place des Lilas

The **Millbrook First Nation** in Nova Scotia received $104,000 to retrofit four units in the community including one which was damaged by flooding. Extensions are being built to the other three units. Work began in the fall of 2009 – two of the renovations have been completed and the other two will be finished by early spring. In addition, the Millbrook First Nation received funding for two new units under CEAP.

"It (the funding) came at the right time and allowed us to accommodate a family with special needs as well as address overcrowding in some of the other units. This program has exposed us to new building practices which will be beneficial for years to come."

Chief Lawrence Paul, Millbrook First Nation

Creating new social housing

Canada's Economic Action Plan also invests in new social housing so that more low-income Canadians, in particular seniors, persons with disabilities and Aboriginal people on reserve and northern Canadians have a better place to call home. Here are few examples:

Squamish Riverstones Development, 67 km north of Vancouver, will be an 84-unit seniors housing complex operated by the Sea to Sky Community Services Society. All of the units will be adapted to seniors' needs, with such items as [illegible] appliances with controls on the front. Twelve of the units will be fully accessible for tenants with disabilities. The project is receiving a total contribution of $4.35 million from the Government of Canada and the Province of British Columbia which will support 30 of the 84 units. As well, CMHC is insuring a $7.8 m[illegible] loan for the project. The project [illegible] the shortage of rental units in Squamish which has seen a decrease in its vacancy rate from 4.[illegible] cent to 1.3 per cent in 2009.



Workers at the Squamish Riverstone Development.

"Our community will benefit from [illegible] rental housing for our seniors, the [illegible] challenged and families. We will also be [illegible] jobs that will be created [illegible]"

Greg Gardner, Mayor of the District of Squamish

Supporting over 500 people with intellectual disabilities in Windsor, Ontario, **Community Living Windsor** received $936,745 through CEAP to purchase three additional properties for its Supported Community Homes program. These properties will house between two to four occupants who, depending on their needs, may access 24-hour support. Integrating persons with disabilities into the community provides them with a greater sense of belonging and proximity to other services.

"Living in a home that looks just like others helps people to feel [illegible] community. By becoming connected to our neighbourhoods and [illegible] develop and people gain a greater sense of se[illegible]"

Xavier Noordermeer, Executive Director of Community Living Windsor



Among five projects in the Yukon Territory under CEAP's funding for Northern housing is the **Watson Lake Seniors Facility**. This new 12-unit project will meet Yukon Housing Corporation's SuperGreen Home energy standards and features Accommodating Home standards to ensure a barrier-free interior and exterior environment. This development will help seniors to live more independently in their community of just over 1,500, known as the Gateway to the Yukon.

Left to right: Premier Dennis Fentie, MLA for Watson Lake, Stephen Murphy, local contractor, the Honourable Vic Toews, President of the Treasury Board

"I've been running a four to six man crew the last few years and I've had to hire for this project. I now have 14 employees."

Stephen Murphy, Murphy Construction – contractor for Watson Lake Seniors Facility

The **Musqueam First Nation Reserve** is located adjacent to the City of Vancouver. The First Nation received $5.3 million under CEAP to construct 31 affordable single family homes for Aboriginal families, seniors and persons with disabilities on reserve. Occupants will pay rent until the mortgages are paid out and then will be eligible to become owners.

"I'm living with my mom currently. I have 5 children. … This means a great deal to me. We are really looking forward to having our own space…and just settling, finally, after so long."

Grace Point, Band Member on waiting list



"Without CMHC's assistance, Musqueam probably wouldn't have been able to build the homes. We didn't know how we were going to do it until Canada's Economic Action Plan came into play."

Allyson Fraser, Councillor, Musqueam Indian Band

Building stronger and more vibrant communities through social housing that benefits the most vulnerable in society is good public policy during these tough economic times. Equally important is investing in municipal infrastructure that supports housing development and economic growth. Check our story At WORK building sustainable communities.

A **strong housing finance** system AT WORK

The strength and soundness of Canada's banking and housing finance system have been well publicized. Many factors have led to Canada's ability to weather the global liquidity crisis better than many other countries, including the role that CMHC plays in housing finance.

For over 60 years, CMHC has worked to ensure the well-being of our housing sector in order to facilitate access to affordable, high quality housing for Canadians. The vast majority of Canadians (80 per cent) are able to meet their own housing needs without direct public assistance. When it comes time to buy a home, most Canadians obtain financing for what is likely the largest investment of their lives. CMHC mortgage loan insurance and securitization guarantee products facilitate access to this financing.

With CMHC mortgage loan insurance, lenders are able to offer qualified borrowers, with down payments of less than 20 per cent, interest rates that normally would only be available for loans with larger down payments. Generations of first-time homebuyers have been able to afford homeownership because of CMHC mortgage loan insurance.

Our steadfast presence as the public mortgage loan insurer has led to underwriting practices that prudently take into account risks from a range of perspectives. Applications for mortgage loan insurance are carefully assessed based on the borrower's ability to manage the debt and the property risks relative to current housing market conditions. Specific criteria must be met for lenders to qualify as an Approved Lender for CMHC mortgage loan insurance purposes as well as to qualify as an Approved Issuer for CMHC's securitization programs. All these contribute to standard, well-established prudent underwriting practices right across the country, whether the loan is for a home in a large urban centre or in a remote village.

Our steadfast presence as the public mortgage loan insurer has led to underwriting practices that prudently take into account risks from a range of perspectives.



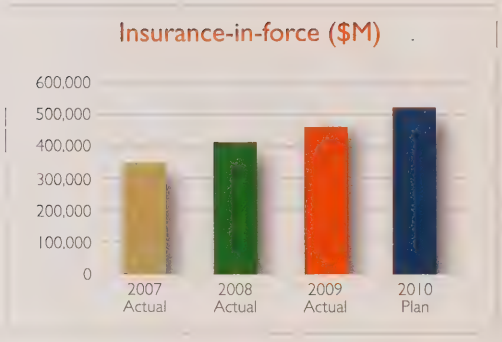
As Canadians faced tough economic times in 2009, CMHC was there, working with lenders, to find ways to help keep Canadians in their homes thus contributing to a more stable housing market.

Our housing system has also benefitted from CMHC's securitization guarantee programs. By guaranteeing the timely payment of principal and interest associated with *National Housing Act* Mortgage-Backed Securities which were first introduced in 1987 and introducing Canada Mortgage Bonds (CMBs) in 2001, billions of dollars have been channelled to mortgage lending, lowering the cost for both mortgage lenders as well as borrowers.

Our role in securitization greatly facilitated the implementation of the federal government's Insured Mortgage Purchase Program (IMPP) in 2008 and we continued to make the program available until March 2010.

Canadian Imperial Bank of Commerce senior economist, Benjamin Tal, describes CMHC as the "secret weapon".

> *"One of the main reasons we did not need a bailout (of banks) is because of CMHC and the ability to provide cheap credit through its facilities."*
> ***Benjamin Tal, senior Economist, Canadian Imperial Bank of Commerce***





AT WORK building sustainable communities

Canadians are doing their part to protect the environment. CMHC is doing the s[illegible]

Research and demonstration

Demonstration homes under the EQuilibrium™ (EQ™) Sustainable Housing Demonstration Initiative first became available for public viewing in 2007, with more following shortly thereafter. Several EQ™ teams are applying their expertise and knowledge towards the development of new housing projects. For example, the Edmonton-based developer of the Riverdale Net Zero EQ™ project, Habitat Studio and Workshop Ltd., has built two more net zero projects and is planning additional projects as a result of consumer interest generated by the Riverdale demonstration. As well, the NOW House EQ™ renovation project inspired housing providers in Windsor and Ottawa to undertake similar projects within their affordable housing portfolios.



"The knowledge we gained by participating in the CMHC EQuilibrium™ Sustainable Housing Demonstration Initiative helped us to simplif[illegible] efficiency systems and technology, resulti[illegible] construction costs for us. The publicit[illegible] demonstration component of EQ[illegible] establish a reputation in the [illegible] to additional construction pro[illegible] planning phase."

Peter Amerongen, Habitat Studio and Workshop Ltd.

CMHC and Natural Resources Canada (NRCan) are now supporting the development of demonstration projects involving EQ™ principles at the community level. A national competition was launched in June 2009 under the Equilibrium™ Communities Initiative. CMHC and NRCan will provide financial and technical assistance to winners to develop and showcase community development that is more environmentally-friendly than what is generally in place today.



CMHC Green Home Mortgage Loan Insurance

Increasing industry capacity to provide Canadians with environmentally-friendly choices when it comes to housing is done not only through our research and demonstration initiatives but also through CMHC mortgage loan insurance.

Our CMHC Green Home mortgage loan insurance product offers a 10 per cent premium refund to qualified borrowers who purchase an environmentally-sound home or make energy-efficient renovations to their properties, including rental properties. This product has reached a milestone – $3 million in premiums have been refunded to borrowers since 2005.

Providing low-cost loans to municipalities for housing-related infrastructure

Under Canada's Economic Action Plan, CMHC is making available up to $2 billion in low-cost loans to municipalities to fund housing-related infrastructure. The Municipal Infrastructure Lending Program (MILP) will not only lower costs for municipalities but will also create jobs and economic growth, help to protect the environment and build stronger communities for the future. Eligible projects include sewers, water lines and neighbourhood regeneration projects. Modern and efficient water treatment plants are vital to ensure the supply of safe drinking water for expanding communities and for safeguarding the environment. Two communities who have benefitted from MILP are Corner Brook, Newfoundland and Saskatoon, Saskatchewan. Both have received MILP loans amounting to $19.5 million and $31 million, respectively.



"This project will ensure that all residents of the City of Corner Brook as well as the Town of Massey Drive and the Town of Mount Moriah will have water provided through a state-of-the-art water treatment plant. An enhanced water treatment facility has been a major goal of our city for over a decade."

Charles Pender, former Mayor of Corner Brook

"The Economic Action Plan has had a tremendous impact on the City of Saskatoon. It has allowed us to free up other dollars to invest in other areas. And, in a lot of cases, those dollars are going to go back into affordable housing for our community. The Action Plan keeps people employed."

Donald Atchison, Mayor of Saskatoon

"When we compare the CMHC loan with our traditional borrowing, over the life of the loan, the city will save $1.2 million."

Larry Shultz, Project Manager, City of Saskatoon



Corporate Governance

- CMHC's Board of Directors
- Practicing good governance
- Being good corporate citizens

CMHC'S BOARD OF DIRECTORS

The legislative framework governing CMHC consists primarily of the *Canada Mortgage and Housing Act (CMHC Act)*, the *National Housing Act* (NHA) and the *Financial Administration Act* (FAA). Pursuant to the *CMHC Act*, the stewardship of the Corporation is the responsibility of the Board of Directors which is comprised of the Chairperson, the President and Chief Executive Officer and eight other directors. The Chairperson and the President and Chief Executive Officer are appointed by the Governor in Council. The eight other directors are appointed by the Minister designated for the purposes of the *CMHC Act* and the NHA (the Minister for CMHC) with Governor in Council approval. With the exception of the President and Chief Executive Officer, all members of the Board are independent of CMHC Management.

Members of the Board have diverse professional backgrounds and bring significant experience from private, public and not-for-profit sectors. This experience and commitment to sound corporate governance help to ensure that the Corporation fulfills its public mandate in a competent and accountable manner. (For additional biographical information see Other Disclosures and Information.)

All newly-appointed Board members are provided with a comprehensive orientation on the Corporation's activities and operations and may attend specialized courses offered by the Canada School of Public Service to further enhance their understanding of responsibilities as Crown corporation directors. There were no changes to the Board membership in 2009; one position remained vacant.



In front row from left to right: Karen Kinsley, FCA, President and Chief
Dino Chiesa, BA, Chairperson, Sophie Joncas, CA, Vice-Chairperso

In back row from left to right: Gary P. Mooney, BA, LLB, PhD, E. Anne MacDonald, BA
James A. Millar, BA, MA, Harold Calla, CGA, CAFM, André G. Plourde, B

The following depicts CMHC's governance structure. A
on page 4.



To assist in carrying out its stewardship of CMHC, the Board has established a number of committees: the Governance and Nominating Committee, the Audit Committee and the Human Resources Committee. Their terms of reference are posted on CMHC's website (see www.cmhc.ca) and are reviewed on a regular basis to ensure that the Board benefits from the committees' thorough examination of these key areas.

Board committees – key areas of responsibility

Governance and Nominating Committee

- Monitors best practices and trends and makes recommendations to the Board with respect to corporate governance.
- Reviews the Board's Standards of Conduct.
- Identifies potential candidates for the positions of Chairperson and President and Chief Executive Officer and also makes recommendations with respect to the profile of the Board.
- Evaluates the performance of the President and Chief Executive Officer against pre-established objectives and goals.

Audit Committee

- Advises the Board on the soundness of the Corporation's financial management.
- Oversees the integrity and appropriateness of internal control systems, risk management practices and financial reporting and audit processes, including the annual financial audit and periodic Special Examinations pursuant to the FAA.

Human Resources Committee

- Advises the Board on strategies with respect to employee recruitment, selection and retention and recommends changes in compensation and performance management policies.

The Board of Directors meets six times a year and its committees meet a minimum of twice a year. Two of the Board's meetings are held outside the National Capital Region in order to allow Board members an opportunity to discuss issues with stakeholders, to obtain first-hand knowledge of local housing conditions and to learn about specific housing developments. As part of their regional meetings, the Board also meets with CMHC staff. This year, the regional meetings took place in the Kitchener-Waterloo area in May and in the Vancouver area in August.

The Board's regional itineraries included meetings with housing officials, community planning experts, private sector affordable housing advocates and developers of energy efficient housing in Waterloo. They also toured facilities on Granville Island that are under CMHC management and visited an affordable housing project in Vancouver's Downtown Eastside.

In conjunction with the regional meeting in Kitchener-Waterloo, the Board held its first annual public meeting at which the Chairperson and President provided information on the Corporation, its governance structure, activities and performance.

Board Member	Total Compensation ($)	Attendance[1]/Meetings				
		Board of Directors	Corporate Governance and Nominating Committee	Audit Committee	Human Resources Committee	Pension Fund
Dino Chiesa	47,600	6/6	3/3			
Harold Calla	21,700	6/6		4/4		
Brian Johnston	19,200	6/6		2/4		
Sophie Joncas	27,200	6/6	3/3	4/4		
Karen Kinsley[2]	N/A	6/6	2/3	4/4	3/3	3/4
E. Anne MacDonald	23,200	6/6			3/3	
James A. Millar	21,200	6/6			3/3	
Gary P. Mooney	19,700	6/6	3/3			
André G. Plourde	22,200	6/6				4/4

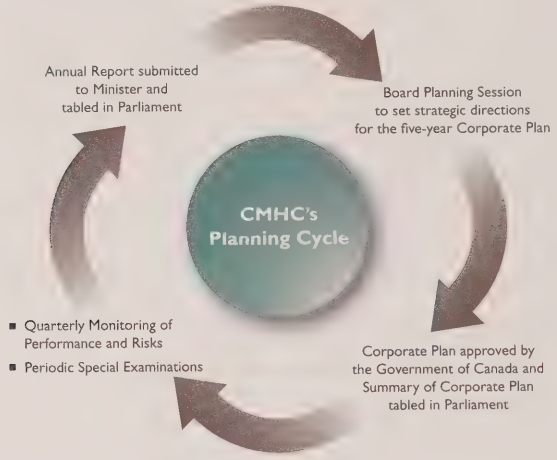
[1] In person or via teleconference or videoconference
[2] Attendance at Audit and Human Resources committees as a non-member

PRACTICING GOOD GOVERNANCE

"CMHC's emphasis on corporate governance demonstrates its commitment as responsible corporate citizens."

Canadian Institute of Chartered Accountants – 2009 CICA Reporting Awards

Corporate Planning



Each year, as required by the FAA, CMHC submits a five-year corporate plan to its Minister for approval by the Government of Canada. The corporate plan is the centrepiece of the accountability regime adopted by Parliament for Crown corporations. The corporate plan encompasses all of CMHC's activities, budgets and resource requirements. The Board of Directors guides the development of the corporate plan, starting with a planning session during which it examines the internal and external operating environment and sets out key strategic directions for the Corporation. At its planning session in March 2009, the Board assessed the impact of the economic downturn on CMHC's activities and reaffirmed the Corporation's three objectives and seven strategic priorities, including directions in assisted housing, housing finance, research and information transfer and international activities. CMHC's 2010-2014 Corporate Plan was approved by the Government of Canada in December 2009.

In addition to the annual planning session, the Board provided direction on CMHC's work on the primary housing finance markets over the long term. It also revisited goals in light of the challenges facing CMHC's international activities caused by severe disruptions in foreign housing markets and economies.

Monitoring Performance and Risks

On a quarterly basis, the Board of Directors reviews a comprehensive report on the Corporation's performance against plan. In 2009, Quarterly Performance Reports assessed changes in the environment, rated performance against some 28 success indicators and provided results against corporate plan performance measures. Given changing priorities, from time to time, the report recommended changes to the timing of deliverables and the allocation of resources. This report also assessed changes in seven key enterprise-wide risk areas. (See section on Risk Management.) Given the need to deliver CEAP housing-related initiatives as quickly as possible, the Board received regular reports on CEAP's progress. Also on a quarterly basis, a detailed report examined specific financial risks.

Program evaluations

The Audit Committee oversees program evaluations that are carried out in accordance with government policy. In 2009, program evaluations were completed with respect to CMHC's suite of renovation programs, including its Shelter Enhancement Program and the Affordable Housing Initiative. These evaluations provide objective assessments of the relevance and effectiveness of policies and are important to the government decision-making process. Results of the evaluations are further discussed in the Management Discussion and Analysis section of this annual report.

CMHC Pension Plan

The CMHC Pension Fund, created by the Board of Directors, is managed and administered by Trustees through a Trust Agreement. It provides eligible employees with benefits upon retirement from CMHC. The Trustees are responsible for setting investment objectives and policies, selecting external investment managers and monitoring investment results. CMHC's Pension Fund governance structure and practices continue to meet or exceed the governance guidelines of the Canadian Association of Pension Supervisory Authorities (CAPSA).

In 2009, the Board approved revised terms of reference for the Pension Fund Trustees as recommended by its Governance and Nominating Committee. The revisions provide for an annual assessment of the Pension Fund's governance structure and practices using the CAPSA self-assessment questionnaire. The Board also receives a written report on the Fund's investment activities and decisions each year.

BEING GOOD Corporate CITIZENS

In addition to practicing good corporate governance and maintaining a high standard of business ethics, CMHC believes in giving back to the community in a meaningful way and in lessening our own impact on the environment.

Giving Back to the Community

CMHC supports a variety of charitable campaigns. The following are some of the key ones:

2009 WORKPLACE CHARITABLE CAMPAIGN

Employees and retirees of CMHC continue to demonstrate their commitment to Canadians with the success of the 2009 Workplace Charitable Campaign. CMHC raised a total of $215,807 – 14 per cent over the campaign goal of $189,000 and setting a new campaign record for the Corporation. With the average donation per employee being $284 and a participation rate of 70 per cent, CMHC employees have once again demonstrated their commitment to helping Canadians in need.

HABITAT FOR HUMANITY CANADA

CMHC is a *gold* sponsor of this internationally renowned organization and shares its vision of a world where everyone has a safe and decent place to live. The Corporation is the lead national sponsor of the Habitat for Humanity Aboriginal Housing program. The objective of the program is to engage Habitat for Humanity affiliates across Canada in implementing pilot programs that will help make the Habitat homeownership model available to more Aboriginal people.



8TH ANNUAL GINGERBREAD HOUSE COMPETITION

CMHC and Habitat for Humanity National Capital Region teamed up once again in 2009 to raise funds. All proceeds from the silent auction of the gingerbread houses went to Habitat for Humanity National Capital Region to help with the construction of new homes for families in need in the community. CMHC employees volunteered their time to this worthy cause. Several prizes were awarded but the main winners will be local families whose dreams of homeownership will move closer to reality as a result of the event.

Doing our part to protect the environment

CMHC demonstrates its commitment to responsible environmental stewardship through its everyday operations. These include the establishment of an extensive recycling program, the re-use of components from information products and construction activities, the refurbishment of office equipment and furniture, the purchase of Energy Star® appliances, the use of recycled paper and the use of environmentally-friendly cleaning products.

In 2009, CMHC consumed 104 tons of recycled paper. The impact of choosing to purchase recycled paper instead of virgin paper has reduced the use of resources as well as the emission of greenhouse gases and generation of waste as follows:

Wood consumed	115 tons
Net energy consumed	255 million BTUs
Greenhouse gases emitted	76,526 lbs of CO_2 EQUIV.
Wastewater generated	368,566 gallons
Solid waste generated	22,377 lbs

Source: Environmental impact estimates were made using the Environmental Defence Fund Paper Calculator. For information visit: http://www.papercalculator.org

In addition, CMHC participates in Earth Day, the largest environmental awareness event in the world. On April 22, 2009, CMHC employees joined an estimated six million Canadians from coast-to-coast-to-coast in environmentally-friendly activities. President Karen Kinsley planted a tree and employees were informed on how to conserve energy and protect the environment including how to calculate their own ecological footprint.



Left to right: David Stitt, Director, Administrative Services, Karen Kinsley, President and Chief Executive Officer and Michel Tremblay, Director, Financial Operations

Building upon CMHC's environmentally-friendly practices in many areas, CMHC will be developing its strategies to protect the environment further. CMHC believes that good governance and environmental stewardship go hand in hand.



Management Discussion & Analysis

Forward-looking statements

CMHC's Annual Report contains forward-looking statements regarding
and expected financial results. There are risks and uncertainties beyond the
that include, but are not limited to, economic, financial and regulatory conditio
internationally. These factors, among others, may cause actual results to differ
the expectations stated or implied in forward-looking statements

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- The Operating Environment in 2009 and Outlook for 2010
- Summary of Financial Results
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THE OPERATING ENVIRONMENT IN 2009 AND OUTLOOK FOR 2010

Economic growth in Canada resumed in the third quarter of 2009 and picked up further in the fourth quarter. While the Gross Domestic Product (GDP) declined in 2009, signs in the latter part of the year pointed to a recovery taking hold in 2010 with real GDP growth in the range of 1.5 to 3.2 percent. The unemployment rate increased to 8.3 per cent in 2009. In 2010, the unemployment rate is forecast to reach 8.4 per cent and edge back down to 8.1 per cent in 2011.

The Consumer Price Index (CPI) for 2009 increased by 0.3 per cent, well below the increase of 2.3 per cent in 2008. It is expected that inflation will remain within the Bank of Canada's target range of 1 to 3 per cent. Higher food and energy costs are major contributors to inflation. However, prices for energy commodities were lower in the second half of 2009 which helped moderate the rate of inflation for the year. The year-over-year increase in the CPI peaked at 3.5 per cent in August 2008 but was only 1.3 per cent in December 2009. Since July 2008, the Bank of Canada has lowered its target for the overnight lending rate by a total of 275 basis points to 0.25 per cent – its lowest in history. These stimulative monetary policies should help boost domestic demand and contribute to stronger economic growth in 2010.

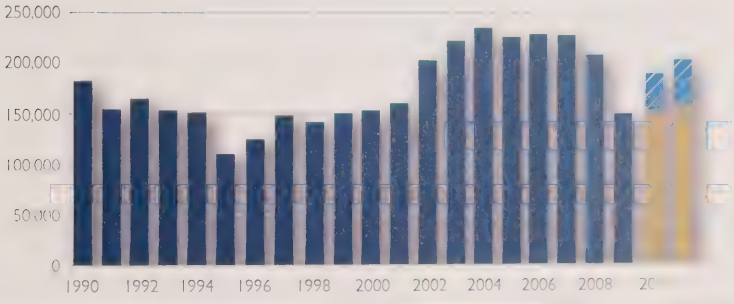
Following years of strong sellers' market conditions, an easing in existing home sales through the Multiple Listing Service®[1] (MLS®) and record high levels of new listings brought balance back to market conditions in the Canadian resale market in 2008. Since January 2009, however, a strong rebound in MLS® sales has pushed the sales-to-new listings ratio back to the sellers' market range. National sales of existing homes through the MLS® are forecast to be within the 455,350 to 509,900 unit range in 2010. Housing starts have also moderated from historically high levels to reach 149,081 units in 2009, down from 211,056 units in 2008. Housing starts are forecast to be within the 152,000 to 189,300 unit range in 2010.

[1] MLS® is a registered trademark of the Canadian Real Estate Association.

Sales-to-new listings ratio has rebounded since January 2009 and has moved into the sellers' range.



Housing starts rebounded in the second half of 2009 and will move in line with demographic requirements in 2010 and 2011.



Demographic models suggest that current household formation is approximately 175,000 net new households per year. These projections are based on current age and gender make-up, projections for migration and past household formation. Housing starts and household formation are closely linked over time. The number of housing starts in a given year, however, can fluctuate above or below expected household formation depending on economic conditions or other factors such as conversions, demolitions and changes in vacancy rates. Housing starts are expected to improve gradually and be roughly in line with household formation over the medium term.

SUMMARY OF FINANCIAL RESULTS

Revenues and Expenses

CMHC reports on these principal business activities:

- Housing Programs: Expenditures and operating expenses are funded by Parliamentary appropriations.
- Lending: Revenues are earned from interest income on the loan portfolio which is funded through borrowings.
  Lending and housing programs provide support for Canadians in need and are operated on a breakeven basis.
- Insurance: Revenues are earned from premiums, fees and investment income. Expenses consist of operating expenses and net claim expenses. The Corporation's net income is primarily derived from this activity.
- Securitization: Securitization revenues are earned from guarantee fees and investment income. Expenses consist primarily of interest expenses.
- Canada Housing Trust (CHT): CHT revenue is earned primarily from investment income. Revenue derived from investment income is used to cover operating expenditures and Canada Mortgage Bonds (CMB) interest expense.

($M except as otherwise indicated)	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Revenues	11,738	15,966	13,164	15,359
Expenses	9,319	14,061	11,939	14,091
Income taxes	641	552	294	357
Net income	1,778	1,353	931	911
Per cent of planned net income achieved	112	95	69	95
Other comprehensive income	(604)	65	483	42
Comprehensive income	1,174	1,418	1,414	953
Resource Management				
Operating expenses (included in Expenses above)	385	460	416	494
Number of staff-years	1,945	2,030	1,999	2,138

Net Income

Consolidated net income was $931 million in 2009, $422 million (31 per cent) below plan. The impact of the economic downturn, primarily on CMHC's insurance net claims, is the main reason for this variance. The Corporation's 2009 Corporate Plan was prepared in the summer of 2008 and, therefore, did not include the impact of the economic crisis.

Other Comprehensive Income

CMHC's other comprehensive income (OCI) consists of unrealized gains or losses caused by changes in the fair valuation of investments in insurance and securitization activities. In 2009, the fair value of these instruments resulted in a $483 million gain compared to a planned gain of $65 million.

Balance Sheet Highlights

($M)	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Total assets	203,461	345,318	272,821	321,200
Total liabilities	195,291	335,484	263,558	311,261
Contributed capital	25	25	25	25
Accumulated Other Comprehensive Income (AOCI)	(276)	531	207	(201)
Retained earnings (other)[1]	2,998	3,974	2,556	2,743
Retained earnings set aside for capitalization	5,423	5,304	6,475	7,372
Total Equity of Canada	8,170	9,834	9,263	9,939

[1] *Includes Unappropriated Retained Earnings, Reserve Fund and Inter-entity Elimination*

Assets and Liabilities

In 2009, total assets were $273 billion, $72 billion or 21 per cent under plan. Total liabilities at year end were $264 billion, $72 billion or 21 per cent under plan. These variances from plan are largely due to the Insured Mortgage Purchase Program (IMPP) being $59 billion lower than planned and CMB issuances being $8 billion lower than planned. During the 2008 liquidity crisis, CMHC was called upon to implement IMPP. After the initial purchase of $25 billion in securities backed by insured mortgages from Canadian lenders, the Government of Canada increased the program by $100 billion for a total purchase of up to $125 billion. However, by the beginning of the second quarter of 2009, the global credit crisis and resulting funding pressures had

largely abated, decreasing the demand for funding through IMPP. Since the program was initiated in the third quarter of 2008, there have been $66 billion in IMPP purchases.

Equity of Canada

Equity of Canada is made up of three components:

Contributed Capital

The capital of CMHC is $25 million unless otherwise determined by the Governor in Council.

AOCI

AOCI is the accumulated unrealized gains or losses caused by the change in fair valuation of investments in insurance and securitization activities. It was $207 million at the end of 2009.

Retained Earnings

Total retained earnings were $9,031 million of which $6,475 million is set aside for capitalization for insurance and securitization activities.

Within the Public Accounts of Canada, CMHC's annual consolidated net income reduces the government's annual deficit, and the consolidated retained earnings and accumulated other comprehensive income reduce the government's accumulated deficit.

The *CMHC Act* and *National Housing Act* govern the use of the Corporation's retained earnings. In particular, the retained earnings from insurance and securitization activities may only be used for the capitalization of CMHC's mortgage loan insurance and securitization operations, for payment of a dividend to the Government of Canada, for the purposes of the *National Housing Act* or *CMHC Act*, any other purpose authorized by Parliament relating to housing, and for retention. In the last several years, a portion

of retained earnings from the insurance activity has been used for capitalization (appropriated retained earnings). In 2009, CMHC also set aside a portion of retained earnings from the securitization activity for capitalization as a prudent business practice. All other insurance and securitization retained earnings have been retained (unappropriated retained earnings).

Retained earnings related to the insurance activity are appropriated in accordance with guidelines set out by the Office of the Superintendent of Financial Institutions (OSFI). CMHC's target for capitalization is 150 per cent of the minimum capital test recommended by OSFI. Under these standards, the insurance activity is fully capitalized. Currently, CMHC maintains approximately twice the level of capital reserves recommended by OSFI. In 2009, retained earnings set aside for capitalization represent 1.3 per cent of the total insurance-in-force of $473 billion. Retained earnings set aside for capitalization in 2008 also represented 1.3 per cent of the total insurance-in-force of $408 billion.

Retained earnings related to the securitization activity are also appropriated based on regulatory and economic capital principles. CMHC has appropriated retained earnings representing 79 per cent of its target capital. Retained earnings set aside for capitalization represent 0.2 per cent of the $300 billion of guarantees-in-force. All other securitization retained earnings represent unrealized fair value fluctuations from the IMPP.

Retained earnings related to the lending activity have been kept by the Corporation as part of its strategy to address interest rate risk exposure on pre-payable loans. They also include amounts representing unrealized fair market value changes in financial instruments. These retained earnings are subject to statutory limits. Should the limits be exceeded, CMHC would be required to pay any excess to the Government of Canada.

In Focus

Canada's Economic Action Plan (CEAP)

The Action Plan takes important steps to ensure that Canada emerges from the recession in a solid position to succeed over the longer term in an even more globalized economy. CEAP measures are intended to create employment through timely and targeted investments to build new and to renovate existing social housing.

Through CEAP, the Government of Canada made close to $2 billion available through CMHC for social housing over a two-year period. In Canada's Economic Action Plan – A Fourth Report to Canadians released in early December 2009, the government reported that a total of $725 million was committed to help renovate and retrofit existing social housing and to build new social housing for seniors and persons with disabilities off reserve in all provinces and territories. In addition, the government committed through CMHC $125 million for First Nations housing and $100 million for housing in the North.

Commitments made through CMHC as reported in Canada's Economic Action Plan – Fourth Report to Canadians ($M)	
Renovation and retrofit of social housing off reserve	500
New social housing for seniors	200
New social housing for persons with disabilities	25
New, renovation and retrofit of social housing for First Nations on reserve	125
New social housing for the North	100
Total	**950**

CEAP also provides up to $2 billion in direct low-cost loans to municipalities, over two years through CMHC for housing-related infrastructure projects in towns and cities across the country. These low-cost loans will significantly decrease the cost of borrowing for municipalities, and can be used by them to fund projects such as sewers, water lines, roads and sidewalks related to new or existing residential developments. In Canada's Economic Action Plan – A Fourth Report to Canadians, the government reported that 64 loans were approved.

Additional information on CEAP is provided under Objective 1 of this annual report.

In Focus

Fair Value of Financial Instruments

CMHC's Balance Sheet is comprised primarily of financial assets and liabilities subject to regular fair value measurement and recognition. At 31 December 2009, approximately $206 billion, or 76 per cent of our assets, and $188 billion, or 71 per cent of our liabilities, were carried at fair value.

These financial instruments are required to be measured at fair value on initial recognition (except for certain related party transactions). In subsequent periods, measurement and the recording of changes in fair market value depends on the accounting classification of the financial instruments (refer to Note 2 – Significant Accounting Policies in our Consolidated Financial Statements).

The following table shows the unrealized gains (losses) from financial instruments recorded by the Corporation over the past two years.

($M)	2008	2009
Net Income - Net Unrealized Gains (Losses):		
MAV II & III notes	-	(7)
CHT	-	212 [1]
Direct Lending	145	(74)
IMPP	733	(108)
Eliminations	82	(76)
Total	**960**	**(53)**
Other Comprehensive Income - Net Unrealized Gains (Losses):		
Insurance	(479)	490
Securitization	(22)	31
Eliminations	(68)	20
Total	**(569)**	**541**

[1] *As a result of the adoption of EIC 173 in 2009 (refer to Note 3 – Change in Accounting Policy in our 31 December 2009 Consolidated Financial Statements)*

As shown in the table, $53 million or 6 per cent of consolidated net income in 2009 related to net unrealized losses from financial instruments. In 2008, 54 per cent of consolidated net income related to net unrealized gains from financial instruments.

The net unrealized gains (losses) for the Direct Lending program represent fair valuations of assets, liabilities and derivatives. As the program is fully hedged, these fair valuation gains (losses) will offset each other over the term of the related assets and liabilities such that the program will result in no income or loss to the Corporation. For CHT and IMPP, only the unrealized gains (losses) of the derivatives are recorded which results in significant year over year variances. As with Direct Lending, these programs are fully hedged such that, over the course of the programs these fair valuation gains (losses) will offset each other resulting in no income or loss.

Change in Accounting Policies

CMHC's change in accounting policies are described in Note 3 of the Consolidated Financial Statements. Effective 1 January 2009, the Corporation adopted the Canadian Institute of Chartered Accountant (CICA) Handbook Emerging Issues Committee (EIC) abstract 173 entitled "*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*". EIC 173 concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

The Corporation also adopted amendments to CICA Handbook 3862 – *Financial Instruments: Disclosures* and Section 3855 – *Financial Instruments: Recognition and Measurement* on 1 January 2009.

Future Accounting Changes

International Financial Reporting Standards (IFRS)

In accordance with the requirements of the Canadian Accounting Standards Board, CMHC will adopt International Financial Reporting Standards (IFRS) as of 1 January 2011 with comparatives for the prior year.

CMHC has established a formal project governance structure with oversight by an IFRS Steering Committee, consisting of management from accounting and finance, information technology, and business operations. Regular updates of the status and progress of the IFRS conversion plan are presented to CMHC Management, the Audit Committee and the Board of Directors.

The Corporation has chosen to approach the conversion in five phases: Diagnostic Assessment, Design and Planning, Solutions Development, Implementation, and Post Implementation Review. During 2009, the Design and Planning phase was completed, and the Solutions Development Phase was substantially completed.

The transition to IFRS is progressing according to plan and the Corporation will begin the implementation phase early in 2010 which includes preparing the IFRS opening balance sheet. IFRS standards and interpretations continue to change and the Corporation has taken the proposed timeline of these changes into consideration.

The Corporation has identified differences between IFRS and current Canadian GAAP as well as various policy choices available under IFRS. CMHC continues to assess the implications of such differences and policy choices.

Impact of Adoption of IFRS

The Corporation has not completed the full quantification of the impacts the future adoption of IFRS will have on its financial statements and operating performance measures; however, the impact is expected to be material.

Accounting Policy Choices

The measurement differences between Canadian GAAP and IFRS will have an impact on the opening financial position of the Corporation at transition. As well, the results of operations under IFRS will differ from Canadian GAAP.

Adoption of IFRS will initially require retrospective application as of the transition date, that is IFRS requirements need to be applied assuming that the Corporation was following IFRS since inception. IFRS 1 is a financial reporting standard that stipulates the requirements for an entity that is preparing IFRS compliant statements for the first time. It provides optional exemptions to the rule of retrospective application of IFRS. The Corporation will be taking the following exemptions to retrospective application:

- Employee benefits: Recognize unamortized actuarial gains and losses in retained earnings on transition to IFRS instead of deferring and amortizing these balances in future earnings.
- Investment property: The use of fair value as deemed cost for its investment property on transition instead of the original transaction cost.

Accounting policy choices upon implementation of IFRS that have been identified to date are summarized below:

- Insurance contracts: Under IFRS, the Corporation has a choice to account for its mortgage loan insurance transactions as either an insurance contract or a financial guarantee contract. The Corporation will continue to account for mortgage loan insurance transactions as an insurance contract.
- Employee benefits: Recognition of actuarial gains and losses in comprehensive income.
- Real estate: Classified into three categories. CMHC owned business premises and equipment will be classified as property, plant and equipment and measured at cost less depreciation. Title transfer property arising from mortgage loan insurance defaults will be classified as non-current assets held for sale and measured at net realizable value. All other properties will be classified as investment property and measured at fair value.
- Related party transactions: IFRS contains no guidance on related party transactions; therefore, CMHC will be required to retrospectively restate related party transactions involving financial instruments to fair value which will result in the recording of Day 1 gains/losses.
- Financial instruments: Currently, CMHC has elected not to exercise the option to reclassify financial instruments to "Fair Value through Profit or Loss" or "Available for Sale" as the existing classifications accurately reflect management's intent. This decision, however, is subject to further consultations regarding certain interpretations of the measurement standard.

The International Accounting Standards Board (IASB) intends to further revise several accounting standards including, but not limited to, financial instruments, post employment benefits and insurance contracts that may result in modification to the accounting areas identified above. The IASB has also indicated several other convergence projects between IFRS and Financial Accounting Standard Boards (FASB) that may further alter this assessment.

Identification and resolution of key information technology requirements

CMHC has performed an analysis of its data system infrastructure and has concluded that transition to IFRS will not result in a material modification to any of its financial systems.

Internal control over financial reporting

IFRS will also affect internal controls over financial reporting. Management does not currently expect such changes to be significant.

Training and communication requirements

CMHC has undertaken the development of a communication plan to inform external stakeholders and key internal staff of the relevant modifications to the accounting and reporting of financial results ensuing from the transition to IFRS. Training seminars on relevant IFRS standards and their potential impact have been provided and will continue for key CMHC personnel.

Key elements of CMHC's IFRS conversion plan

Impact assessment	Selected key activities	Progress to date
Financial statement impact / Accounting policy choices	Identification of IFRS versus GAAP differences	Completed the identification of IFRS differences
	Evaluate and select transitional and ongoing policy alternatives	Selection of transitional and policy choices is substantially completed
	Engage auditors in conversion process	Auditors have commenced review of the Corporation's accounting analysis and policy choices
IFRS impacts on its business	Identify and assign necessary resources for technical analysis and implementation	Critical tasks and resourcing have been identified and prioritized by project management
	Assess impact of IFRS accounting standards on business activities	The Corporation has identified areas of significant IFRS differences that impact its business activities
Training and communication requirements	Provide training to key CMHC staff and Audit Committee members	Focused training for management and affected employees provided
	Communication of progress on conversion plan	Communication ongoing
Information technology requirements	Identify and address IFRS differences that require changes to financial systems	No significant differences identified
	Evaluate and select method to dual report IFRS and GAAP in 2010	Method for dual reporting has been selected

OUR PERFORMANCE AGAINST OBJECTIVES

CMHC delivers programs, products and services in support of three objectives and seven strategic priorities.

Objective 1: Help Canadians in need	
Strategic Priority 1.1	Help Canadians in need access affordable, sound and suitable housing
Strategic Priority 1.2	Support Aboriginal Canadians to improve their living conditions
Objective 2: Facilitate access to more affordable, better quality housing for all Canadians	
Strategic Priority 2.1	Ensure Canadians have access to mortgage loan insurance products and tools that meet their needs
Strategic Priority 2.2	Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program
Strategic Priority 2.3	Provide comprehensive, timely and relevant information to enable Canadian consumers as well as the housing sector to make informed decisions
Objective 3: Ensure the Canadian housing system remains one of the best in the world	
Strategic Priority 3.1	Promote sustainable housing and communities
Strategic Priority 3.2	Support and promote Canada's world-class housing products, services and system internationally

This report analyzes our performance against each strategic priority, and presents our performance measures and expected outcomes. Performance measures serve to ensure that our activities remain on track. Ratings against each measure are as follows:

- Target met or exceeded (> 98% of plan)
- Target substantially met (≥ 95% and ≤ 98% of plan)
- Target not met (< 95% of plan)

While performance measures help track our activities on an annual basis, our expected outcomes are higher level results of our activities. These outcomes may or may not be strictly housing outcomes but can go beyond by touching on social, economic and environmental impacts or benefits. Given that there are many factors that need to be considered, the attribution of housing activities to outcomes is a complex process. CMHC research continually enhances our understanding of linkages between our activities and outcomes, allowing us to refine the development of the quantitative elements of our performance management framework. In addition, as information is made available through the Census, specialized surveys and/or program evaluations, CMHC reports on housing trends and impacts on a periodic basis.

OBJECTIVE 1
HELP CANADIANS IN NEED

Under this objective, CMHC has two strategic priorities. The first priority addresses the housing needs of Canadians living off-reserve in all provinces and territories. The second priority addresses the housing needs of First Nations people living on reserve. This priority also addresses Canada Economic Action Plan funding for social housing in the North as well as CMHC's research and demonstration initiatives in this region. The financial analysis found on page 59 covers housing programs and lending activity under both strategic priorities.

STRATEGIC PRIORITY 1.1

Help Canadians in need access affordable, sound and suitable housing

A good home is the foundation for families to grow and prosper. Low-income Canadians and others with distinct housing needs experience difficulty in accessing affordable housing in many communities across the country. CMHC provides federal investments in social housing that enable thousands of families to secure access to housing they can afford or to remain in their homes through renovation assistance. These families include seniors, persons with disabilities and Aboriginal Canadians living off-reserve. Affordable rental housing is also preserved [illegible] renovation programs. We also foster affordable housing solutions by helping local groups sponsor projects, providing supportive mortgage loan insurance [illegible] undertaking research.

Our Resources

Operating Expenses: $64 million
Staff-Years: 396

OUR SCORECARD

PERFORMANCE MEASURES FOR 1.1	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Housing program expenses excluding operating expenses ($M)	2,288	2,247	2,505	3,001[1]
Estimated number of households assisted through long-term social housing commitments	623,700	621,700	620,000	612,700[2]
Renovation programs expenditures (value of loans forgiven over time) ($M)	107	141.2	120.4	120.4
Affordable Housing Initiative expenditures[3] ($M)	98	93.4	120.2	168.1
Affordable housing units facilitated by CMHC's Affordable Housing Centre	3,325	2,500	3,160	2,105
Direct Lending ($B)	1.71	.839 to .903	1.034	1.14 to 1.23

EXPECTED OUTCOMES FOR 1.1

Immediate
Low-income Canadians have greater access to affordable, sound and suitable housing stock that meets health and safety standards. For seniors and persons with disabilities, assistance extends independent living.

Intermediate
Governments and other organizations have information to better assess policy options related to housing for Canadians in need. Industry adopts best practices in areas where CMHC undertakes research.

Long-term
Individuals and families have a more stable foundation for accessing opportunities and improving their quality of life. Communities benefit from greater stability and prosperity.

Performance Analysis

With the economic downturn, CMHC's role in providing social housing assistance to Canadians in need took on added importance. Federal investments in social housing, already significant at about $2 billion a year, were increased substantially through Canada's Economic Action Plan, the federal government's budget of January 2009.

[1] *Includes all Parliamentary appropriations for activities under strategic priorities 1.1, 1.2, 2.3, 3.1 and 3.2, including CEAP-related expenditures*
[2] *Includes households assisted on reserve under strategic priority 1.2*
[3] *Includes the extension of AHI, but not CEAP-related expenditures*

CEAP social housing investments

In Canada's Economic Action Plan – A Fourth Report to Canadians, the government reported that a total of $725 million was committed to help renovate and retrofit existing social housing and to build new social housing for seniors and persons with disabilities off reserve in all provinces and territories. With over 1,300 projects underway, we are clearly on pace to achieve full take-up. These investments exclude CEAP investments on reserve and the CEAP initiative specifically targeted to the North (see strategic priority 1.2).

($M)	CEAP Commitments through CMHC[1]	CEAP Budget
Renovation and retrofit of existing social housing administered by provinces and territories	$425	$850
Renovation and retrofit of existing social housing administered by CMHC	$75	$150
New social housing for seniors administered by provinces and territories	$200	$400
New social housing for persons with disabilities by provinces and territories	$25	$75
Total	**$725**	**$1,475**

[1] In accordance with Canada's Economic Action Plan. Excludes on-reserve and initiatives specifically targeted to the North–see strategic priority 1.2

Immediately following the tabling of Canada's Economic Action Plan, CMHC proceeded to work with provinces and territories to get agreements in place so that the real work of getting projects off the ground could begin. We highlighted some of these at the beginning of this report.

The construction of new social housing targeted to seniors and persons with disabilities is being delivered and cost-matched by all provinces and territories under parameters established for the Affordable Housing Initiative. (See Glossary for further description of the AHI.)

CEAP funding of $1 billion for the renovation and energy retrofitting of existing social housing is also, for the most part, being delivered by provinces and territories. Of the $1 billion, provinces and territories will administer and match $850 million. Amendments to the agreements that were in place with these provinces and territories were quickly signed in order to allow them to start planning for and processing renovation

and energy retrofit projects. The remaining $150 million will be spent on renovating and energy retrofitting social housing projects that receive federal funding administered by CMHC.

While the federal government through CMHC provides CEAP funding, we join provinces and territories in recognizing the important role that social housing sponsors play in implementing CEAP initiatives.

Housing-related municipal infrastructure supported through the Municipal Infrastructure Lending Program (MILP)

CMHC was also called upon to use its capacity and expertise in administering federal loans to deliver up to $2 billion in low-cost loans through a new Municipal Infrastructure Lending Program as part of CEAP. Under this program, CMHC provides low-cost loans to municipalities to fund housing-related infrastructure. Municipalities are able to apply for loans online through CMHC's website.

Sixty-four loans were approved at the time of the government's Fourth Report on Canada's Economic Action Plan. These loans amount to $225.8 million. The savings realized by municipalities by borrowing from CMHC will vary depending on the rates a municipality could expect from other sources of funding. CMHC's interest rates are anticipated to reduce costs for municipalities by more than 1.5 percentage points from what private sector lenders would charge. On a $10 million loan over 15 years, this would represent a savings of $1.5 million.

Ongoing social housing investments

Each year, the federal government provides funding through CMHC to support existing social housing developed between 1946 and 1993, so that thousands of families can continue to access housing they can afford. Six-hundred and twenty thousand (620,000) families live in this housing. (See definition of Housing Program Expenses in the Glossary.) Ongoing subsidies help ensure that lower-income families living in these units do not pay a disproportionate amount of their income on housing. Most provinces and territories are responsible for administering federal subsidies for social housing, while in other jurisdictions, CMHC directly administers much of the funding. Federal funding expires as the 25-to 50-year mortgages on these properties are paid out. In 2009, $1.7 billion went to subsidize these units.

Social housing through the Affordable Housing Initiative

New social housing is also developed under the Affordable Housing Initiative (AHI). Unlike social housing developed prior to 1993, social housing created through the AHI comes in the form of one-time upfront capital contributions that enable project sponsors to provide housing to Canadians at a lower cost. Provinces and territories design and deliver the housing programs funded through the AHI in accordance with national parameters. Federal dollars are matched by provinces and territories and other groups. The AHI was set to expire on March 31, 2009 but was extended for two years at $125 million a year as part of the federal government's five-year commitment to housing and homelessness programs announced in September 2008.

In 2009, CMHC renewed AHI agreements with all provinces and territories. It is also through AHI agreements that provinces and territories receive CEAP-related funding. Under the AHI, 3,810 units were developed in 2009, bringing the total units developed since the AHI's inception in 2001 to 45,066.

Renovation programs

The repair and rehabilitation of homes and affordable rental properties occupied by low-income families is also made possible through CMHC's suite of renovation programs. These programs are either delivered by provinces, territories or CMHC. The shortfall of $10.6 million against our expenditure target was largely due to a slower than planned pace of expenditures in two jurisdictions. Similar to the extension of the AHI, CMHC's renovation programs were also extended for a two-year period until March 2011 at a cost of $128.1 million per year.

Other means to foster the development of affordable housing

Affordable housing solutions are also fostered through financial support to affordable housing groups in the form of Seed Funding and/or Proposal Development Funding (PDF) (see Glossary) and through CMHC mortgage loan insurance, research and expertise. Seed Funding and PDF are intended to assist groups in the early stages of developing a project proposal. These programs and other activities go a long way towards creating more affordable housing units at no or at very little cost to the taxpayer. In 2009, some 3,160 units were created through CMHC's Affordable Housing Centre which provides local housing groups with

advice and information on best practices, puts them in touch with other public and private partners, and provides guidance in the early stages. This guidance includes providing advice on applying for Seed Funding, PDF or CMHC mortgage loan insurance underwriting flexibilities for affordable housing.

Partnerships in the City of Abbotsford

An example of how CMHC works with community-based groups can be found in the City of Abbotsford, British Columbia. CMHC's Affordable Housing Centre provided Seed Funding and PDF to help the City of Abbotsford and a local construction firm develop an 11-unit flex townhouse project. The City sold the land to the developer at 50 per cent below market value and, once completed, the townhouse units will sell for 20 to 25 per cent below market value. These units incorporate CMHC's *flex housing* guidelines so that basements can be easily converted into rental suites for seniors or persons with disabilities. Homeowners who convert their basements into rental units will benefit from the rental income, while seniors and/or persons with disabilities will have access to more affordable rental housing in their community. To complete the conversions, eligible homeowners can apply for a fully forgivable loan under CMHC's secondary suites renovation program. The city went the extra mile by reducing development cost charges and amending by-laws so that these secondary suites can be developed.

Direct Lending

CMHC also provides mortgage financing at more favourable federal borrowing rates to federally-assisted housing sponsors through our Direct Lending program. By providing mortgage funding to social housing sponsors when they seek to renew their mortgages, thousands of dollars in interest costs are saved. CMHC provided $1,035 million in loans, surpassing our target by 23 per cent. Direct Lending is also available to finance new social housing on reserve. (Also see section on Risk Management.)

Looking Ahead

According to the 2006 Census, 1.5 million Canadian households are unable to find adequate and suitable housing without spending more than 30 per cent of their household income.

While continuing to implement CEAP initiatives remains a priority for CMHC in the coming year, we do have an eye on the longer term. Provinces and territories, who administer the majority of assistance, continue to examine the long-term viability of the existing social housing portfolio. They will examine project operating expenses and revenues, replacement reserves, the physical condition of the buildings and their redevelopment potential and the socio-economic characteristics of the existing tenants. CMHC will work closely with provinces and territories on this issue.

CMHC's evaluations of the AHI and the renovation programs confirmed that the program objectives and rationale remain relevant and that the programs are effective.

The five-year federal funding commitment to housing and homelessness programs, which included the extension of AHI and CMHC's renovation programs for the first two years, provides an opportunity to consider improvements. CMHC's evaluations of the AHI and the renovation programs confirmed that the program objectives and rationale remain relevant and that the programs are effective. (See In Focus later in this section.)

Specifically, low-income Canadians are the primary beneficiaries of these programs. Thirty per cent of AHI rental units are occupied by households with annual incomes of $12,000 or less and 67 per cent of renter households and 51 per cent of homeowner households who benefitted from CMHC's renovation programs off reserve have annual incomes of $18,000 or less. Consultations with provinces, territories and other stakeholders took place in the fall of 2009 to obtain feedback on these programs as well as on the Homelessness Partnering Strategy which is administered by the Department of Human Resources and Skills Development Canada (HRSDC). The consultation process concluded with a meeting of federal, provincial and territorial ministers responsible for housing and homelessness on December 4, 2009.

CMHC and HRSDC will continue to examine the results of the evaluations and consultations and advise on federal investments in housing and homelessness programs for the remaining three years of the five-year federal commitment.

In Focus

Housing Program Evaluations

Affordable Housing Initiative (AHI)

The evaluation of the AHI examined program activity and funding from 2001, the year the initiative was introduced, through to the end of 2007 and focused on projects and units completed as part of Phase I and Phase II. The federal government contributed $680 million and $320 million to Phases I and II, respectively, to increase the supply of affordable housing.

Highlights of the evaluation include:

- there was a need for the program;
- the program was effective in increasing the supply of affordable housing. The increase would not have occurred without the initiative; and
- the program improved housing conditions and the overall quality of life for occupants, although some did continue to have an affordability problem.

Renovation programs (RRAP)

CMHC's suite of renovation programs (see Glossary) provides financial assistance to homeowners and landlords to repair or rehabilitate units occupied by low-income households to minimum levels of health and safety; to preserve and add to the stock of affordable housing; and to improve the accessibility of units occupied by low-income seniors and persons with disabilities. Most provinces and territories cost-share (minimum of 25 per cent) and deliver CMHC's renovation programs.

The following are the highlights of the evaluation:

- there was a need for the programs;
- the programs were effective in extending the useful life of the buildings receiving assistance; and
- RRAP improved the ability of persons with disabilities to engage in daily activities and improved their satisfaction with their housing.

Shelter Enhancement Program (SEP)

Since 1997, the SEP has been part of the federal Family Violence Initiative and provides financial assistance through capital funding for renovation and enhancement of existing family violence shelters or for the development of new units or shelters. Provinces and territories that deliver CMHC's renovation programs also deliver the SEP program. Between 2001-02 and 2006-07, SEP has aided the development or renovation of 7,169 shelter beds and 1,085 shelter units, with total loans committed of $83.5 million.

The evaluation highlights include:

- there was a need for the program;
- the program helped increase the number of shelters and shelter spaces;
- repairs and improvements would not have been made without SEP;
- new approaches to providing shelters in remote areas and in First Nation communities may be required; and
- the program has helped prevent further family violence for those seeking shelter.

STRATEGIC PRIORITY 1.2

Support Aboriginal Canadians to improve their living conditions

Working with First Nations and Indian and Northern Affairs Canada, CMHC provides funding to help First Nation communities on reserve build and renovate housing. CMHC also works to enhance the capacity of First Nations to deliver housing programs and supports private financing solutions on reserve. CMHC's expertise in sustainable housing helps communities in the North, which are predominantly Aboriginal, adopt housing technologies that reduce high energy and maintenance costs.

Our Resources

Operating Expenses: $17 million

Staff-Years: 140

OUR SCORECARD

PERFORMANCE MEASURES FOR 1.2	2008 Actual	2009 Plan	2009 Actual	2010 Plan
New units committed under the On-Reserve Non-Profit Rental Housing Program	945	774	832	697
Renovation program expenditures (value of loans that are forgiven over time) ($M)	13.7	18.9	17.3	12.6
Per cent of housing programs and services delivered through First Nations or Aboriginal organizations	90	83	91.4	80
Homeowner units facilitated through insured financing or other market-based housing tools	242	170	245	170

EXPECTED OUTCOMES FOR 1.2

Immediate

First Nation members living on reserve and low-income Canadians in the North who are predominantly Aboriginal have greater access to affordable, sound and suitable housing that meets health and safety standards. For seniors and persons with disabilities, assistance extends independent living.

Intermediate

Increased homeownership on reserve allows First Nation households to participate more fully in the economic, social and cultural spheres of their communities.

First Nations have the capacity to develop, maintain and manage their own housing on reserve.

Long-term

Individuals living on reserve have a stable foundation for accessing opportunities and improving their quality of life.

First Nation members gain greater financial security and health through increased homeownership on reserve. On reserve communities benefit from greater stability and prosperity.

Governments and First Nations have information to better assess policy options related to housing for First Nation members.

Performance Analysis

Canada's Aboriginal people living on reserve and in northern communities face unique challenges when it comes to meeting their housing needs. Most notably, the cost of construction and renovation is high due to the remoteness of many reserves and northern communities and short construction seasons. The relatively low incomes of Aboriginal households living on reserves also contribute to the high rate of housing need (34 per cent) which is well above the rate of core housing need experienced by Canadians in general (12.7 per cent).

Another factor that impedes the development of housing markets on reserve is the inability of private lenders to register a mortgage against the property as security for housing loans. Properties on reserve cannot be seized by a lender and resold to non-First Nation or Band members in the event of borrower default. Ministerial Loan Guarantees issued by the Minister of Indian Affairs and Northern Development can be used to secure private financing. Another means to facilitate private financing is the First Nations Market Housing Fund (see discussion later in this section and the Glossary).

In order to help Aboriginal Canadians improve their living conditions, CMHC's efforts focus on three areas: providing federal funding to support the housing needs of low-income households, facilitating private financing for housing and helping to increase the capacity of First Nations on reserve to manage their own housing programs. Federal funding in support of social housing on reserve as well as in the North was increased through CEAP.

Canada's Economic Action Plan

CMHC and INAC worked closely with First Nations in 2009 to get CEAP funded projects off the ground in order to bring much needed housing as well as economic stimulus to Aboriginal communities. Canada's Economic Action Plan – A Fourth Report to Canadians released in December 2009, reported that $200 million (includes CMHC and INAC) under CEAP has been committed for both new units and the retrofit of existing social housing units on reserve. A total of 300 First Nation communities have received assistance. The report also highlighted that in the North, $100 million has been committed and 106 projects have begun.

($M)	CEAP Commitments through CMHC[1]	Total Budget
New social housing units and retrofit of existing social housing units on reserve	125	250
New social housing units and retrofit of existing social housing units in the North	100	200
Total	**225**	**450**

[1] *In accordance with Canada's Economic Action Plan. Excludes INAC commitments on reserve.*

Ongoing federal investments in the On-Reserve Non-Profit Rental Housing Program

Ongoing funding for existing social housing units, as well as funding for new units developed under the On-Reserve Non-Profit Rental Housing Program, was provided by CMHC. In 2009, 822 new units under this program were committed, exceeding our target of 774. At year end, 29,150 units were under subsidy.

Renovation programs

CMHC's renovation programs provided funding to repair or to rehabilitate almost 1,200 housing units on reserve in 2009. The delivery of this federal housing assistance on reserve posed considerable challenges in 2009 as CEAP-related initiatives put additional strain on First Nations' capacity. While our expenditure target (the value of loans that are forgiven over time) was not met, these programs continue to meet their objective of assisting low-income First Nations address housing repair and rehabilitation needs effectively.

Enhancing capacity

The capacity of First Nations on reserve to deliver housing programs was tested in 2009 given regular programming and CEAP. While CMHC succeeded in ensuring that 96 per cent of housing programs on reserve were delivered through First Nation or Aboriginal organizations, well in excess of the plan of 83 per cent, the demands being placed on a relatively small group of individuals who have housing expertise continue to increase.

Facilitating market-based solutions and private financing

CMHC facilitates private financing for housing on reserve through a number of means. CMHC mortgage loan insurance is available to lenders for loans on reserve. A Ministerial Loan Guarantee from INAC is required unless there is a guarantee backed by a trust agreement between the First Nation and CMHC. CMHC worked with First Nations to facilitate some 245 privately-financed housing units, 144 per cent over plan.

CMHC was also instrumental in launching the First Nations Market Housing Fund in 2008. The Fund was established as a self-sustaining, independent and not-for-profit trust designed to facilitate access to financing for market-based housing in First Nation communities and to help create capacity in First Nation communities to administer market-based housing programs. CMHC has been engaged for a period of five years by the Fund to provide day-to-day managerial services under the supervision of the Fund's Trustees. The Fund acts as backstop for private financing of housing on reserve. More information can be found at its website at http://www.fnmhf.ca.

Looking Ahead

In 2010, the focus will continue to be on the delivery of social housing investments as part of CEAP and increasing the capacity of First Nations to manage housing programs. The one-time federal investments being provided by CMHC represent a much-needed boost to improving the availability and quality of social housing as well as creating jobs for Aboriginal people during the economic downturn. Capacity development initiatives will address issues such as construction techniques, building inspections, ways to improve indoor air quality and regular home maintenance. The Corporation will also continue to provide assistance and advice related to the administrative and financial management of housing.

Severe winter climates and cultural needs are unique challenges faced by people living in the North. In 2010, CMHC's role in housing research will continue to help demonstrate the types and forms of housing that can respond to these challenges. For example, CMHC is exploring opportunities to work with the Northwest Territories Housing Corporation to develop and demonstrate housing that is culturally appropriate and energy efficient. The demonstration home will be designed to address the cultural needs of the local population and to perform 50 to 70 per cent better than a home constructed to meet the requirements of the Model National Energy Code for Houses developed by the Canadian Commission on Building and Fire Codes.

Financial Analysis for Strategic Priorities 1.1 and 1.2

Housing Programs

($M)	2008 Actual	2009 Plan	2009 Actual	Results against Plan	2010 Plan
Housing program expenses	2,288	2,247	2,505	111%	3,001
Operating expenses	103	114	108	95%	124
Total appropriations	**2,391**	**2,361**	**2,613**	**111%**	**3,125**

On an annual basis, the Corporation spends approximately $2 billion to assist Canadians in need. Of this total, approximately $1.7 billion is related to ongoing, long-term social housing commitments of which $1 billion is paid to provinces and territories who administer the housing portfolio pursuant to Social Housing Agreements with CMHC.

Canada's Economic Action Plan (CEAP) increased housing program expenses in 2009, 2010 and 2011. Under CEAP, CMHC will deliver close to $2 billion in social housing stimulus in this period. CEAP measures are intended to create employment through timely and targeted investments to build new and renovate existing social housing.

Lending Activity

($M)	2008 Actual	2009 Plan	2009 Actual	Results against Plan	2010 Plan
Interest income	786	748	739	99%	720
Net gains (losses) from financial instruments	77	(7)	(79)	(1,129)%	(45)
Other income (Expense)	(1)	(2)	(3)	(150)%	(4)
Interest expense	761	739	658	89%	691
Operating expenses	18	22	19	86%	27
Income taxes	19	(6)	(4)	67%	(17)
Net income (loss)	64	(16)	(16)	100%	(30)
Reserve Fund	185	177	151	85%	17

CMHC's Direct Lending program provides financing for the construction and refinancing of eligible social housing projects.

Lending net income was on plan. Higher than planned unrealized losses from changes in the fair market values of financial instruments were largely offset by lower than planned interest expense.

CMHC also provides low-cost loans to municipalities as part of CEAP.

OBJECTIVE 2

FACILITATE ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING FOR ALL CANADIANS

Under this objective, CMHC pursues three strategic priorities. Strategic priorities 2.1 and 2.2 pertain to the Corporation's mortgage loan insurance and securitization businesses, respectively. These operate on a commercial basis at no cost to the federal government. Strategic priority 2.3 outlines CMHC's market analysis, research and information transfer activities which are federally-funded under Housing Program Expenses (see section on Objective 1 and the Glossary).

STRATEGIC PRIORITY 2.1

Ensure Canadians have access to mortgage loan insurance products and tools that meet their needs

In Canada, federally-regulated lenders must insure mortgage loans when borrowers have less than a 20 per cent down payment. This insurance protects lenders in the event of mortgage default and enables borrowers to obtain mortgage financing at interest rates comparable to those with larger down payments. CMHC mortgage loan insurance is available across the country for both homeowner and rental properties. Generations of first-time homebuyers have benefited from the availability of mortgage loan insurance and the stability and prosperity that homeownership can bring. Equally, rental property owners and nursing and retirement home operators have been able to obtain financing for their properties. Consequently, the majority of Canadians have been able to meet their own housing needs without direct government assistance.

Our Resources	Operating Expenses: $214 million[1]
	Staff-Years: 976

[1] *Includes issuance costs from the insurance activity which are deferred for financial statement purposes.*

OUR SCORECARD

PERFORMANCE MEASURES FOR 2.1	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Total mortgage loan insurance approved in units	919,790	873,375	1,187,652	960,944
Total mortgage loan insurance approved ($M)	148,327	139,388	183,167	143,545
Per cent of the total of rental and high ratio homeowner units approved to address less-served markets and/or to support specific government priorities	41.8	33	39.7	33
Operating expense ratio (per cent)	12.0	12.8	11.9	13.9

EXPECTED OUTCOMES FOR 2.1

Immediate	Intermediate	Long-term
Lenders are protected from losses due to borrower default and are willing to provide mortgage financing and provide it at lower rates because of CMHC mortgage loan insurance	A healthy housing market which includes new construct as well as renovation activi contributes to job cre and economic growth	Canadia
Canadians across the country not served or under-served by private mortgage loan insurers can better access housing finance.	The provision of insurance for rental housin and condominium construction promotes affordable housin and supports tenure option	
Portfolio insurance increases the efficiency of capital management for lenders and increases the competitiveness of small lenders. In combination with securitization, it also increases the availability of mortgage funding in Canada.		

Performance Analysis

Mortgage loan insurance application approval volumes

CMHC exceeded volume expectations in 2009. Increased volumes can be attributed to a combination of factors. Increased demand for CMHC Portfolio insurance for low-ratio loans (see Glossary) was, in part, influenced by lenders' desire to participate in CMHC's securitization programs. These programs require that loans pooled for the purposes of our programs be insured. The Insured Mortgage Purchase Program administered by CMHC on behalf of the federal government, also played

a role in lenders' decisions to insure loans in order to qualify for the program. In addition, some financial institutions made use of CMHC-insured mortgages for the purpose of backing Covered Bond transactions.

Many lenders diverted more of their business to CMHC as the liquidity crisis deepened and uncertainty surrounding the private sector competitors increased due to the ongoing financial difficulties faced by their U.S.-based parents. Some private mortgage loan insurers operating in Canada withdrew from the Canadian market because of the financial situation facing their parent companies. CMHC volumes were also attributable to the reduction in geographic coverage and product offerings by its major private sector competitor, particularly in the first half of the year in response to the economic downturn. This resulted in CMHC being the only insurer in certain markets for both homeowner and rental loans.

In keeping with our public policy mandate, CMHC continued to offer mortgage loan insurance across the country and provided lenders a range of mortgage loan insurance products to meet the individual housing needs of qualified borrowers as well as the needs of corporate borrowers in the business of developing multi-unit housing such as condominium and rental properties.

We remain steadfast in our commitment to enhancing client service and key account management strategies. In response to higher volumes, CMHC made adjustments to processes and resources while maintaining prudent underwriting standards.

Serving markets less well-served by the private sector

Close to 40 per cent of the total of rental and high ratio homeowner mortgage loan insurance units in 2009 were in areas or markets that are not served or less well-served by the private sector. This includes housing on reserve, in rural areas and in small towns. We are also Canada's only provider of mortgage loan insurance for large rental projects, including nursing and retirement homes. Our products also enable lenders to offer greater financing flexibilities and provide cost savings to proponents of affordable housing as well as to those making energy-efficient housing choices. Since CMHC introduced underwriting flexibilities for affordable housing, 16,800 affordable housing units have been facilitated.

Due diligence

CMHC requires that lenders apply stringent due diligence and borrower risk assessment. After lenders have screened borrower applications to ensure that they meet their organizations' lending criteria, applications for mortgage loan insurance are carefully reviewed in an independent assessment by CMHC. CMHC approves or declines the application based on specific risk factors including the borrower's credit history (indicating their ability and willingness to meet their financial obligations), the condition of the housing market in which the property is located, as well as the valuation of the property itself.

While borrower default risk is transferred to CMHC once an application for insurance is approved, lenders remain responsible for servicing the loan and, should borrowers experience any difficulties, they are to employ all reasonable mitigation efforts to bring or to keep the loan current. As significant resources are expended in these mitigation efforts, lenders have considerable incentive to properly review applications even when the mortgage is insured by CMHC. (Also see Quality Assurance Framework in the section on Risk Management.)

Helping Canadians keep their homes in tough economic times

Due to economic conditions in 2009, CMHC placed particular emphasis on working with lenders to help Canadians having difficulty in meeting their mortgage payments to stay in their homes. We expanded our default management efforts with the introduction of a centralized call centre for default management and claims payment, offering extended service hours to better support lenders and borrowers. In addition, a consumer outreach campaign was launched to enable borrowers to better understand options that are available to them should they encounter difficulties in meeting their mortgage payments. This included enhanced information on CMHC's website for homeowners facing financial difficulty.

Financial Analysis

($M)	2008 Actual	2009 Plan	2009 Actual	Results against Plan	2010 Plan
Premiums, fees and other income	1,449	1,505	1,648	110%	1,662
Investment income	533	579	562	97%	611
Net gains (losses) from financial instruments	(18)	140	106	76%	(7)
Interest expense	8	-	1	-	-
Operating expenses	182	195	195	100%	231
Net claims	372	279	1,112	399%	647
Income taxes	403	507	266	52%	389
Net income	999	1,243	742	60%	999

Revenues from mortgage loan insurance are comprised of insurance premiums, application fees for rental loans and income earned on its investment portfolio. Premiums and fees are received at the inception of the mortgage insurance policy. They are recognized as revenue over the period covered by the insurance contract using actuarially determined factors that reflect the long-term pattern for default risk. These factors are reviewed annually by an external actuary. As CMHC is mandated to operate its mortgage insurance business on a commercial basis, the premiums and fees it collects and the interest it earns must cover the related claims and other expenses. They must also provide a reasonable rate of return to the Government of Canada, ensuring a level playing field with private-sector mortgage insurers. CMHC's insurance activity is operated at no cost to Canadian taxpayers. Currently CMHC maintains approximately twice the level of capital reserves recommended by OSFI.

Premiums and fees were higher than planned largely due to a change in the actuarial factors used in determining earned premium as well an increased demand for insurance products in 2009. The increase in planned revenue was offset by higher than planned net claims as a result of the deterioration in economic conditions since the plan was prepared in mid-2008. Gains from financial instruments were lower than planned, also due to softer market conditions.

Also see discussion in the section on Risk Management.

Looking Ahead

The general state of the economy will drive housing and mortgage markets going forward. Despite the cyclical economic slowdown, historically low interest rates have improved affordability and have released pent-up demand leading to a recovery in housing markets in the latter part of 2009. The recovery is expected to continue in 2010, although the volume of new home starts is expected to remain well below the peak levels achieved in 2007 and 2008. The timing and magnitude of interest rate changes as well as the economic recovery both in Canada and in the U.S. will influence housing markets in 2010 and going forward.

CMHC's goal is to maintain our position of strength in the market while also continuing to apply prudence and due diligence in underwriting. CMHC will also pursue process efficiencies that will simultaneously improve risk management, internal operations and client service.

We will also monitor changes in the regulatory environment intended to increase overall transparency in the mortgage loan insurance application processes.

STRATEGIC PRIORITY 2.2

Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program

We guarantee the timely payment of interest and principal of National Housing Act Mortgage-Backed Securities *(NHA MBS) issued by financial institutions and of Canada Mortgage Bonds (CMB) issued by the Canada Housing Trust (CHT). Our securitization programs help ensure that a steady supply of low-cost funds is available for mortgage lending and provide investors with opportunities to hold high quality, secure investments in Canadian residential mortgages.*

Our Resources	Operating Expenses: $8 million[1]
	Staff-Years: 53

OUR SCORECARD

PERFORMANCE MEASURES FOR 2.2	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Annual securities guaranteed ($M):	104,625	167,000	135,447	66,000
▪ Market NHA MBS	36,125	12,000	55,123	12,000
▪ CMB	43,500	55,000	46,925	48,000
▪ IMPP	25,000	100,000	33,399	6,000
Operating expense ratio (per cent)	4.1	<11	3.9	<9

EXPECTED OUTCOMES FOR 2.2

Immediate	Intermediate	Long-term
Increased integration of mortgage market lending with capital market lending leads to greater efficiency and lower costs for lenders.	A stable and resilient Canadian housing finance system.	Financial institutions have access to robust wholesale housing finance choices.
Enhanced competitive position of small lenders in the mortgage market.		
Canadians continue to be able to access low-cost financing for their homes.		

[1] *Includes issuance costs from the Securitization Activity which are deferred for financial statement purposes.*

Performance Analysis

Annual securities guaranteed

In 2009, CMHC guaranteed timely payment of principal and interest on $135.4 billion in mortgage-related securities against a target of $167 billion. Under CMB and NHA MBS programs, $102 billion in securities were guaranteed versus the plan of $67 billion. With respect to the Insured Mortgage Purchase Program (IMPP), $33.4 billion of the target of $100 billion was guaranteed.

At the onset of the global liquidity crisis in 2008 and in order to maintain the availability of longer-term credit in Canada, the federal government established IMPP under which CMHC purchased securities backed by insured mortgages from Canadian lenders. After the initial purchase of $25 billion in NHA MBS, the Government of Canada increased the program by $100 billion with purchases to be completed by 2009. This amount was included in CMHC's target for 2009.

By the beginning of the second quarter of 2009, the global credit crisis and resulting funding pressures began to wane, decreasing the demand for funding through IMPP. The program, however, continued to be an important source of funding and the federal government extended its availability until the end of March 2010. This extension was well received by mortgage lenders.

> *"It (IMPP) supported the banks at a critical juncture in the global financial crisis, and played a big role in keeping mortgage rates from flaring higher late last year, when many global borrowing costs were surging."*
> ***Douglas Porter, Deputy Chief Economist, Bank of Montreal***

In 2009, under the CMB program, the Canada Housing Trust (see Glossary) issued and CMHC guaranteed $46.9 billion in Canada Mortgage Bonds versus $43.5 billion in 2008. These bonds provided mortgage funding for approximately 263,000 mortgages from 29 financial institutions across Canada.

In addition to CMB, CMHC also guaranteed $55.1 billion in market NHA MBS issued by financial institutions.

Overall, the $135.4 billion in securities guaranteed in 2009 was 30 per cent higher than the $104.6 billion guaranteed in 2008 and the highest volume of securities guaranteed over the last five years.

Our securitization programs continue to contribute to a strong and stable Canadian housing finance system by ensuring that lenders and, in turn, borrowers have access to low-cost funds for residential mortgages.

Enhancements to securitization products and programs in 2009

Over the past several years, CMHC has enhanced its securitization products, policies and operations to improve their effectiveness and, in particular, to enhance the ability of smaller lenders to participate in our securitization program. In 2009 the following enhancements were made:

- enabled lenders to securitize the fixed-rate amortizing portion of Home Equity Lines of Credit (HELOC) or multi-component loan pools under the NHA MBS product;
- allowed market NHA MBS to be sold into the CMB program;
- implemented a Delayed Certificate Inventory process for the CMB program;
- improved the NHA MBS day count convention; and
- improved the settlement day conventions for the CMB program.

Financial Analysis

($M)	2008 Actual	2009 Plan	2009 Actual	Results against Plan	2010 Plan
SECURITIZATION					
Interest income from NHA MBS	139	4,241	1,523	36%	2,072
Premiums, fees and other income	99	147	180	122%	174
Income from investment securities	24	28	38	136%	45
Net gains (losses) from financial instruments	733	11	(104)	(945%)	(178)
Interest expenses	139	4,241	1,529	36%	2,188
Operating expenses	4	9	7	78%	10
Income taxes	219	51	32	63%	(15)
Net income	633	126	69	55%	(70)
CHT					
Interest income from NHA MBS	4,599	5,433	5,637	104%	6,283
Premiums, fees and other income	163	260	192	74%	214
Income from investment securities	840	776	156	20%	873
Net gains (losses) from financial instruments	-	-	212	-	-
Interest expenses	5,432	6,203	5,786	93%	7,150
Operating expenses	170	266	199	75%	220
Net income	-	-	212	-	-

Securitization interest income and interest expense are both below p... largely due to lower than planned NHA MBS issuances and lower than planned interest rates. The interest income and interest expense variances offset each other and result in no impact to net income. Net income from securitization was $69 million, or 45 per cent below plan, as a result of the unrealized losses from the fair valuation of IMPP ($77 million).

On consolidation of CHT with CMHC, a $212 million unrealized gain on CHT's derivatives was recorded in order to apply a valuation methodology consistent with that of CMHC. As a result, CHT shows a net income of $212 million in the consolidated financial statements.

Also see discussion in the section on Risk Management.

Looking Ahead

CMHC's securitization programs remain a reliable and cost-effective source of funding, particularly for smaller lenders. In 2010, we expect demand for our securitization programs and the funding they provide, to remain robust and have set a target of $66 billion in securities to be guaranteed.

In response to industry consultations in 2009, CMHC will focus on a number of enhancements to its securitization programs in 2010. These include developing the structure and issuance strategy for a potential foreign currency CMB and a Commercial Paper component within the CMB program, a long-term solution for home equity line of credit (HELOC) securitization and multi-seller NHA MBS pool structures.

On the regulatory front, the change over from Canadian GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial Reporting Standards) in Canada by January 2011 will have implications for mortgage lenders and CMHC's securitization programs.

The Office of the Superintendant of Financial Institutions (OSFI) draft advisory on the impact of IFRS on regulatory capital ratios could impact regulated mortgage lenders who use our securitization programs.

Updated Minister of Finance Financial Risk Management Guidelines for Crown corporations regarding standalone ratings for counterparties could also have implications for our securitization programs.

CMHC is assessing these emerging issues and will work with regulators and other industry members to try to ensure that our securitization programs continue to meet policy objectives and clients' needs for reliable, cost-effective funding sources for mortgages.

STRATEGIC PRIORITY 2.3

Provide comprehensive, timely and relevant information to enable Canadian consumers as well as the housing sector to make informed decisions

CMHC fulfills an important role in providing Canadians with comprehensive information on housing markets, in undertaking research on a wide range of housing topics and providing reliable and practical advice on housing to homeowners and renters. Our information products are largely disseminated through our website or through our call centre. We also deliver housing outlook conferences across the country and information transfer seminars for the [illegible] consumers. These activities contribute to market efficiency by enabling stakeholders and the public to make informed decisions.

Our Resources

Operating Expenses: $35 million

Staff-Years: 314

OUR SCORECARD

PERFORMANCE MEASURES FOR 2.3	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Per cent of subscribers to market analysis publications who found them useful	93	>94	91	>93
Per cent of attendees at Housing Outlook Conferences who found them useful	99.3	95	98.8	95
Forecast accuracy of housing starts (per cent)	+1.5	Within 10 per cent of actual	+19.4	Within 10 per cent of actual
Ranking of housing starts forecast accuracy among forecasters	3rd amongst 18	Rank within top quartile	3rd amongst 16	Rank within top quartile
Per cent of attendees at information transfer seminars who found them useful	92	90	94	90
Per cent of recipients of newly published Research Highlights who found them useful	72	70	71	70
Per cent of recipients of newly published About Your House fact sheets who found them useful	85	80	83	80

EXPECTED OUTCOMES FOR 2.3

Immediate to intermediate	Intermediate to long-term
Consumers, the housing industry, stakeholders and policy makers have access to timely and relevant information on housing and housing markets.	The housing market is more efficient and stable as a result of more effective matching of supply and demand. Consumers and the housing industry adopt best practices.

Performance Analysis

CMHC continues to receive positive feedback on its market analysis, housing research and related information products and many Canadians have relied on CMHC to provide them with timely, relevant and reliable information. Each year, CMHC determines areas for research following consultations and an examination of the external environment. Our research directions build upon a significant body of knowledge already developed on issues such as housing needs, Aboriginal housing, housing finance, capital markets and ways to improve building performance. Research and information transfer related to sustainable housing and communities can be found under strategic priority 3.1.

While meeting most of our performance targets, economic conditions in 2009 impacted our forecast accuracy for housing starts. For the first time in several years, our forecast accuracy was not within the 10 per cent range because of volatile market conditions. Our goal, however, to rank within the top quartile of forecasters was reached, ranking third amongst 16. The usefulness rating of our market analysis publications also dropped slightly to 91 per cent from 93 per cent in 2008.

In 2009, over 1.2 million copies of information products were distributed through a number of channels, including through CMHC's website. In addition, the Corporation's experts made 583 market analysis presentations reaching an audience of approximately 43,000. Nineteen housing market outlook conferences in all major centers across the country drew over 5,000 participants and received high usefulness ratings of over 98 per cent. We published 20 Research Highlights addressing topics such as challenges faced by newcomers to the Canadian housing market, the differences between occasional and persistent core housing need and other analyses pertaining to housing stemming from the 2006 Census.

Another milestone for CMHC was the release of results of our first ever national seniors housing survey. These results shed light on housing conditions for this growing segment of the population, providing information on vacancy rates, rent levels and other characteristics of the seniors housing market. Industry members are now able to use the results for planning purposes.

In 2009, we continued to undertake research on the factors that impact housing affordability for different segments of the population, including the impact of taxes, fees and levies.



Once again this year, we published the *Canadian Housing Observer*, providing the housing industry and policy makers with an integrated view of market developments, housing challenges and the changing needs of Canadians. CMHC makes enhancements every year to this publication in a continual effort to improve the understanding of housing trends and conditions and the key factors driving them, as well as raising the profile of housing issues on the public policy agenda.

Looking Ahead

In these times of economic uncertainty, there is a heightened need for research and policy analysis that is both responsive and forward looking. CMHC expects that this need will remain high as both policy makers and housing market participants respond to ever changing economic conditions. CMHC will continue to enhance its ability to serve as the pre-eminent source of information on housing markets, trends, conditions and housing needs in Canada. In addition to standardized market analysis information, the ability of users to generate customized reports on demand would improve client service. CMHC is undertaking a systems review to make retrieval of information from its website more flexible.

Research is also continuing on the directions in housing finance in Canada over the long term, specifically in light of increased government regula[illegible] in many countries and the impacts of interventions during the h[illegible] the financial crisis.

OBJECTIVE 3

ENSURE THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD

Under this objective, CMHC pursues two strategic priorities designed to ensure the Canadian housing system continues to be innovative and competitive. Our goal under strategic priority 3.1 is to encourage sustainable housing and communities while the goal of strategic priority 3.2 is to promote the export of Canadian housing products, technology and our world-class housing system.

STRATEGIC PRIORITY 3.1

Promote sustainable housing and communities

More and more Canadians are making environmentally-conscious decisions and understand the impact of housing on the environment. It is estimated that housing represents 16.3 per cent of energy consumed by end users and 14.8 per cent of greenhouse gas emissions. Improvements to housing technologies and practices over time have provided and will continue to provide Canadians with better choices. CMHC's research activities, as well as our mortgage loan insurance products, are encouraging the adoption of new and more sustainable housing technologies and practices.

Our Resources	Operating Expenses: $9 million
	Staff-Years: 54

OUR SCORECARD

PERFORMANCE MEASURES FOR 3.1	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Per cent of attendees at information transfer seminars on sustainable housing and communities who found them useful	92	90	94	90
Per cent of recipients of newly published Research Highlights on sustainable housing and communities who found them useful	72	70	71	70
Per cent of recipients of newly published About Your House fact sheets on sustainable housing and communities who found them useful	85	80	83	80

EXPECTED OUTCOMES FOR 3.1

Intermediate to long-term: Greenhouse gas emissions attributable to the residential sector are reduced through improved performance of new and existing homes.

New and existing communities become more sustainable through adoption of sustainable practices, intensification of existing neighbourhoods and brownfield re-development.

Performance Analysis

Since 2006, the EQuilibrium™ Sustainable Housing Demonstration Initiative (EQ™) has served to drive CMHC's research and information transfer activities under this strategic priority. The broad scope of EQ™ not only has the goal of reducing the impact of housing on the environment but also addresses other issues including how building materials affect occupant health, improving indoor air quality and temperature control and more use of natural lighting.

In 2009, CMHC announced it would provide support to three additional EQ™ demonstration homes: Harmony House in Burnaby, Green Dream Home in Kamloops and Moncton VISION. These projects, along with twelve previously announced projects located in other regions, represent a Canada-wide perspective for the future of sustainable housing. Thus far, the performance of seven EQ™ homes is being monitored. For a complete list, consult CMHC's website at www.cmhc.ca. To date, 33,700 people have passed through EQ™ homes. As showcased earlier in this report, a builder is now constructing additional EQ™ homes incorporating lessons learned through the demonstration project that CMHC facilitated.

The growing interest in EQ™ was demonstrated by the 150 participants who attended an EQ™ industry forum organized by CMHC in Edmonton. At this forum, builders of three EQ™ demonstration homes in Alberta shared their experience and knowledge on the design, construction and marketing of their demonstration projects. Participants included builders, developers, architects, engineers and planners. Their feedback indicated that EQ™ principles have practical application.

In June 2009, CMHC and Natural Resources Canada (NRCan) launched a national competition under the EQuilibrium™ Communities Demonstration Initiative. Winners will receive financial and technical assistance to develop sustainable community demonstration projects that exceed current environmentally-friendly practices related to such factors as land-use, water management, transportation infrastructure and protection of the natural environment. The financial viability of developing the community is another important consideration in the selection of winners. The goal is to provide assistance and to help promote six projects beginning in 2010.

The economic downturn and the focus of Canada's Economic Action Plan on home renovations, particularly those which help to conserve energy, led to the success of the Energy Retrofit for Homes Conference held in Toronto in October 2009. Financially supported by CMHC and NRCan, this conference attracted over 400 participants. Its goal was to highlight innovations in this area and to enhance the industry's knowledge and capacity to undertake home renovations that improve the performance of housing for consumers.

To encourage environmentally-friendly decisions, CMHC Green Home, a mortgage loan insurance product, was introduced in 2005. Through this product, homeowners or small rental property investors can obtain a 10 per cent mortgage loan insurance premium refund for the purchase or construction of an energy-efficient home or to finance energy-saving renovations.

Over the years, many Canadian households have benefited from premium refunds and the number of refunds continues to increase steadily each year. As previously indicated, since CMHC Green Home was launched in 2005, Canadian borrowers have benefited from over $3 million in premium refunds.

Looking Ahead

As Canadians look for more sustainable housing options for the future, CMHC will continue to share knowledge gained through EQ™ and will disseminate new information products to address gaps in best practices. Winners of the EQ™ Community Demonstrative Initiative competition will be announced in 2010.

In support of Canada's Economic Action Plan, CMHC will pursue mortgage loan insurance opportunities related to the government's emphasis on energy efficiency and housing renovations.

In addition to doing our part to protect the environment, as discussed in the Corporate Governance section, our role as manager of Granville Island on behalf of the Government of Canada provides another opportunity to promote sustainable practices as we continue efforts to renew the Island's infrastructure.

STRATEGIC PRIORITY 3.2

Support and promote Canada's world-class housing products, services and system internationally

CMHC helps key housing export clients enhance their export sales, leading to jobs and economic benefits for Canada. CMHC also offers its knowledge and expertise to foreign governments and agencies seeking to improve housing conditions in their countries.

Operating Expenses: $1.7 million

Staff-Years: 66

OUR SCORECARD

PERFORMANCE MEASURES FOR 3.2	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Overall satisfaction rate of key housing export clients (per cent)	92	80	[illegible]	85
Value of CMHC-facilitated sales reported by key housing export clients ($M)	129	120	[illegible]	100
Consulting revenues achieved ($M)	1.6	2.54	[illegible]	2.4

EXPECTED OUTCOMES FOR 3.2

Intermediate

[illegible] increases in Canadian export [illegible] economic growth and job creation in Canada

Long-term

[illegible] to affordable housing, increased economic benefits to these countries

Management Discussion & Analysis 3.2

As indicated in the Corporate Governance section, the Board re[illegible] changing conditions. In early 2009, the Board recognized that achieving the target of $2.54 [illegible] at mid-year 2008, was unlikely given disruptions in foreign housing markets and economies. The achievement of $1.1 million in revenues in 2009 was in line with the revised Board target.

Performance Analysis

The solid relationships that CMHC has built between Canadian exporters and foreign buyers over the years enabled CMHC to reach its facilitated sales target for 2009 despite the economic downturn.

CMHC facilitated over $122 million in export sales for its key clients. This means that almost 1,350 jobs for Canadians were either maintained or created.

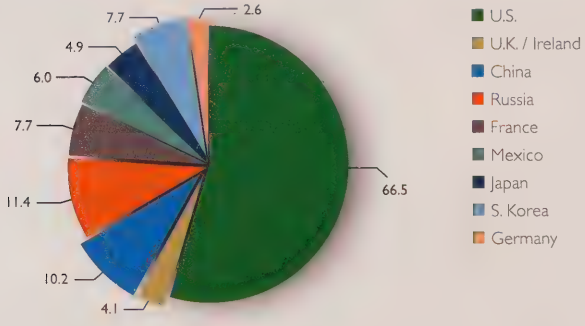
Canadian exporters did better than expected in the United States and also pursued opportunities in Russia, Korea and France. Sales in the United Kingdom, however, were down.

Helping Canadian housing exporters

CMHC's focus on helping the Canadian housing industry take advantage of opportunities to promote Canadian know-how in sustainable building technologies also paid off.

CMHC was honoured with the prestigious Innovation and Energy Technology Sector 2009 Recognition Award from Natural Resources Canada (NRCan). The award recognizes CMHC's exceptional dedication and achievement in implementing the Super E® Energy Efficient Housing Export Program in the United Kingdom. Despite the many challenges faced by the housing sector over the past several years, CMHC and NRCan have been able to build a strong and successful partnership

CMHC-Facilitated Sales of $122.1 million for Key Export Clients in 2009 ($M)



Figures do not add up to total sales due to rounding and sales in other countries.

to help bring energy-efficient Canadian housing to the U.K. This partnership has resulted in the construction of more than 700 Super E® homes in the United Kingdom over the past eight years and an estimated return on investment to the Canadian economy of more than $50 million.

Consulting revenues impacted by global recession

The global recession and fiscal pressures resulted in many foreign governments delaying or cancelling their plans to undertake projects aimed at developing more efficient and effective housing markets. Several multi-year contracts, representing approximately $3 million in consulting revenues for CMHC, did not proceed as planned.

In 2009, CMHC helped the Russian government develop a business plan to introduce a mortgage insurance system that would make homeownership more affordable for young families in Russia. A similar project was completed for the Government of South Africa. It is anticipated that both the Russian and South African governments will be seeking CMHC's assistance during the implementation phase of these projects.

In Saudi Arabia, CMHC provided housing policy advice to address housing shortages in that country. We are also assisting a bank in Saudi Arabia with plans to introduce residential mortgage lending and construction finance. In Syria, we delivered a workshop on international best practices in mortgage lending to help the country in its efforts to modernize its mechanisms for accessing housing.

Looking Ahead

The impact of the global downturn will continue to affect CMHC's export and international activities. A number of our key export clients have either ceased business operations or have decided to focus on domestic markets given the state of the economy. The challenge for CMHC is to expand the number of its key export clients and to enhance sales volumes for our existing clients. We will continue with our efforts to assist exporters in focusing on important target markets such as energy-efficient building products and systems and will focus on countries with significant unmet housing needs. Russia, for example, has identified wood-frame housing as its preferred solution to its housing shortages. This offers many opportunities for Canadian builders and product suppliers.

CMHC will be working on strengthening its relationships with foreign governments, agencies and organizations that are key to promoting Canadian housing exports. We will also continue to represent the Government of Canada in housing matters on the international scene. The upcoming World Urban Forum in March 2010 will be an opportunity to engage with countries around the world on matters related to urban development and, in particular, on sustainable community planning. CMHC will be coordinating Canada's participation at this forum for the fifth time.

ENSURING A STRONG ORGANIZATION – INTERNAL SERVICES

To remain a strong organization that is able to fulfill its mandate, CMHC not only draws on strong corporate governance and sound financial and risk management practices but also on progressive human resources policies and practices, efficient and reliable information technology processes and systems, and effective communications and marketing services.

HUMAN RESOURCES

PERFORMANCE MEASURES	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Retention of regular employees recruited 3 to 5 years ago (per cent)	96.6	93	97	93
Level of employee engagement (per cent)	96	90	96	90
Critical and vulnerable positions with succession plans underway (per cent)	100	90	100	90
Employees with development plans in place in CMHC's online performance management system (per cent)	88	85	92	85
Employees in bilingual positions meeting language requirements (per cent)	91	90	92	90
Representation rates for Aboriginal people, visible minorities and persons with disabilities reflect or exceed the labour representation rates in the latest Census (per cent)		Aboriginal people		
	2.7	2.7	2.8	2.8
		Visible minorities		
	13.2	13.4	15.1	13.9
		Persons with disabilities		
	3.9	4.7	4.3	4.3

CMHC understands that its workforce of approximately 2,000 employees is key to the Corporation's continued success. Our talent management framework encompasses policies on multiple fronts to ensure that CMHC is able to attract and retain employees with the skills that we need to carry out our mandate. Our compensation policies, employee development and performance management programs, as well as our commitment to achieving a diverse and representative workforce, are some of the cornerstones of this framework.

In 2009, we continued to build upon our reputation as a great place to work where employees are valued and respected and strive to do their best.

CMHC has a remarkable legacy, extending back some 63 years, in building a workforce community. This legacy is underpinned by an enduring commitment to excellence and innovation and solid results in improving the lives of Canadians through good quality, affordable housing and in supporting Canadian housing at work.

2009 an award-winning year for CMHC

Over the past two years, CMHC has received several awards including designations as one of Canada's Top 100 Employers for 2010, as a Top 25 Employer in the National Capital Region for 2009 and 2010 and as one of Canada's Best Diversity Employers in 2009. The Canadian Mortgage Professionals also selected CMHC as an Employer of Choice for 2009.

As President Karen Kinsley indicated in a message to employees, *"These prestigious awards recognize the best places to work in Canada, and honour those companies and organizations that consistently lead their industries in attracting and retaining employees. They also speak to our success in fostering a workforce that values and respects employees, celebrates diversity and offers genuine opportunities for learning and growth."*



CMHC receives Top 100 Employers Certificate at a reception in November 2009.
From left to right: *Gail Tolley, Vice-President, Human Resources, Julie Philippe, Director, Total Compensation, Richard Yerema, Managing Editor, Canada's Top 100 Employers, Dino Chiesa, Chairperson of CMHC's Board of Directors and Peter Friedmann, General Manager, Ontario Region and Managing Director, Securitization.*

Our retention and employee engagement rates of 97 per cent and 96 per cent, respectively, provide further evidence that CMHC's talent management framework is working.

A diverse workforce representative of the public that we serve is also essential to our success. In 2009, CMHC conducted a successful employment equity self-identification campaign to highlight the value of a diverse, representative and inclusive workplace to CMHC's success.

The campaign contributed to increases in employee representation rates within all employment equity groups. While the Corporation fell short of its target for persons with disabilities, new targets for all three groups have been established for 2010 based on 2006 Census data which reflects the increased availability of Aboriginal peoples and members of visible minorities and the decreased availability of persons with disabilities. The 2010 targets are in line with our longer-term objective of achieving the labour force availability rates by 2013.

CMHC's commitment to official languages is also an important aspect of our workplace community and is reflected in the fact that in 2009, 92 per cent of employees in bilingual positions met the bilingual requirements of their positions. Language training support is offered to help employees maintain or develop second language skills. Our efforts to provide excellent service to the public in both official languages have also been recognized by the Office of the Commissioner of Official Languages.

As with many organizations, CMHC must address the implications of changing labour market demographics. While higher levels of unemployment in the short term have made recruitment and retention easier, retirements continue to rise. Currently, one in four CMHC employees is eligible to retire by 2014 with an unreduced pension. As a result, succession management, leadership development and building the capacity to retain corporate knowledge will be key priorities going forward.

INFORMATION TECHNOLOGY

CMHC's information management systems, which include systems to support internal operations as well as systems which interface with external users, are highly reliable. Accountability and responsibility for information technology governance and oversight lies with management and the Board of Directors, and CMHC continuously assesses industry trends to guide future technology development initiatives.

With increased use of electronic means to transmit and store information, systems security is a primary concern for all organizations. CMHC has security policies that comply with the Government of Canada's requirements.

CMHC's critical information systems are assessed regularly for vulnerabilities and corrective measures are taken as required. The success of these measures in addressing vulnerabilities has been confirmed in subsequent audits. To ensure that CMHC's security measures continue to adequately protect CMHC's technical and information assets, vulnerability assessments will be carried out on all high risk systems by 2011.

PERFORMANCE MEASURES	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Technology index for key systems (per cent)	99.9	99.8	99.9	99.8

CORPORATE MARKETING AND COMMUNICATIONS

CMHC maintains communications and marketing functions in order to enhance awareness and understanding of the Corporation's mandate, activities and offerings. In 2009, more than 230 announcements on federal housing initiatives were made across the country. Many of these were related to initiatives stemming from Canada's Economic Action Plan.

We also seek to provide Canadians with user-friendly access to our information and other products. With over 24 million Canadians having access to the internet, it has transformed the way information is accessed and used. CMHC understands the importance of ensuring that its website, often the first and only contact many Canadians have with CMHC, is easy to use and provides the information that Canadians and CMHC

stakeholders and clients want. We also strive to make it easier for Canadians to locate our website by working with owners of other frequently visited sites to add links to our site from theirs. In 2009, there were 7.4 million visits to CMHC's website, up 30 per cent over 2008.

In 2009, web-based technology was used to provide ready access to information on CMHC's CEAP housing-related initiatives. This technology also included the ability to apply online for funding for certain initiatives. Close to 50,000 visits were made to CMHC's CEAP-dedicated micro site. A quarter of the visits resulted in downloads of CEAP program guidelines or applications, indicating that the site is a valuable tool in getting information out on a timely basis and facilitating the delivery of federal funding for social housing to create jobs and stimulate the economy.

Another web-based tool launched in 2009 is The RESOURCE. This service allows registered users from the mortgage lending industry to customize CMHC information on housing for their clients. Over 10,700 mortgage professionals have registered to use this service.

CMHC, like many other organizations, has recognized that growth in the Canadian population is increasingly dependent on immigration. According to the 2006 Census, Canada's immigrant population of over 6 million represents 20 per cent of the Canadian population. The Census also indicates that 20 per cent of the Canadian population do not consider English or French as their mother tongue.

To enhance its ability to provide services to an increasingly diverse population, CMHC's website provides access to a micro site for information on renting, buying and maintaining a home in six languages other than English or French: Mandarin or Simplified Chinese, Punjabi, Urdu, Tagalog, Arabic and Spanish. Close to 100,000 visits to the site have been recorded since it was launched, indicating that we are enhancing our ability to reach a more diverse population.

In 2009, CMHC also piloted an eight-week outreach campaign aimed at Chinese and South Asian communities in the Greater Toronto Area. The campaign consisted of print advertising, online advertising and advertisements on multicultural television channels.

RISK MANAGEMENT

CMHC is exposed to a variety of risks in its operating environment that could have an impact on the achievement of its objectives. The ability to respond to changing circumstances is critical to the organization's success.

Risk management responsibilities are shared by the Board of Directors, CMHC Management and the operational units. As described earlier in the Corporate Governance section, the Board of Directors ensures that appropriate risk management practices are in place. CMHC Management reviews risk assessments and reports on a regular basis to the Board. Operational units continually monitor their risks and implement mitigation strategies when appropriate.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

CMHC Management continually assesses internal and external risks through the Enterprise Risk Management (ERM) framework that regroups risks under three broad categories: strategic, infrastructure and specific risks (see figure below).



As a member of CMHC Management, the Chief Risk Officer works closely with line and staff managers to assess changes in the environment that affect the level of risks associated with each of these categories and subcategories. A strategic and operational risk assessment overview, integrated with the corporate performance reporting process, is provided quarterly to CMHC Management and the Board of Directors to support the decision-making process.

The Board is also provided with an annual Enterprise Risk Management Letter of Representation from the President and CEO which assures the Board that CMHC Management has identified and managed the main business risks influencing CMHC's environment. (See page 97)

Following a review of CMHC's enterprise risk management practices in 2009, some enhancements will be introduced in 2010.

A new ERM policy, which came in force on January 1, 2010, was approved by the Board in December 2009. This policy includes a Risk Appetite Statement to ensure a consistent understanding of acceptable levels of risk exposure. It also establishes an ERM committee to conduct evaluations of risks and introduces changes to reporting processes. These enhancements will assist CMHC in its ongoing efforts to identify, assess, manage and mitigate risks.

DISCUSSION AND REVIEW OF FINANCIAL RISKS

The nature of risks and risk mitigation strategies associated with CMHC lending, mortgage loan insurance and securitization activities are described in further detail below.

For initiatives under Canada's Economic Action Plan, a risk assessment framework was developed for the initiatives that CMHC is administering. The framework identifies the risks and associated mitigation activities related to the implementation of those initiatives delivered by provinces and territories as well as initiatives directly delivered by CMHC. Risk assessments and the status of mitigating activities are reviewed on a regular basis by CMHC Management and the Audit Committee of the Board.

LENDING

Under Objective 1: Help Canadians in need, CMHC provides loans to federally-subsidized social housing sponsors. These loans can be offered to social housing sponsors at lower interest rates because CMHC borrows funds through the Crown Borrowing Program. The main sources of risks to the Corporation in providing these loans are credit risk, prepayment risk and interest rate risk.

Credit risk

Credit risk is defined as risk of loss due to the failure of counterparties to meet their contractual obligations. CMHC's loan portfolio consists of loans in support of social housing that are either under the administration of provinces or territories, or administered by CMHC directly, including those on reserve. The majority of credit risk is mitigated by either CMHC mortgage loan insurance or through recoveries from the federal government.

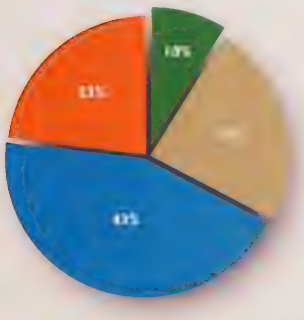
In order to manage credit risk, annual reports which include audited financial statements submitted by social housing sponsors, provide CMHC a means to detect and to intervene, as appropriate, when a project faces financial difficulty and, therefore, poses a credit risk to CMHC. A feasibility analysis is performed to determine the value of the property and any other collateral, and work-outs or restructuring which may involve additional financing or Enhanced Assistance, are determined on a case-by-case basis.

The estimated fair value of loans from CMHC lending activities totalled $13.4 billion. The book value including accrued interest amounts to $11.4 billion.

As shown in the graph below, based on the loan portfolio, losses on 23 per cent of the portfolio would be eligible for recovery from the federal government through funds that CMHC receives through Parliamentary appropriations.

CMHC mortgage loan default insurance covers an additional 23 per cent of the portfolio and 43 per cent of the portfolio is recoverable from provinces and territories.

Ten per cent is recoverable from Indian and Northern Affairs Canada as these loans carry a Ministerial Loan Guarantee.



Default Recovery Mitigation (%)

Note: MILP loans represent 1 per cent of loans provided

Reserve fund for lending activity

Contributed Capital by the Government of Canada is $25 million.

Pursuant to the *CMHC Act*, a Reserve Fund is established to hold the Retained Earnings from CMHC's lending activities. CMHC is authorized to retain up to $240 million to protect the Corporation from losses. Included in this limit is an amount of $115 million designated specifically for fluctuations in net income arising from fair valuations of financial instruments (unrealized), with the remainder to cover potential prepayment losses. The current Reserve Fund stands at $151 million, of which $35 million results from CICA's financial instruments accounting standards.

Prepayment risk

CMHC is subject to prepayment risk in some of its lending activities. For 2009, prepayments totalled $18.94 million. These prepayments were $9.09 million lower than experienced in 2008. Prepayments will result in a reduction in CMHC's income if the proceeds of prepayments are invested at a reduced interest rate. CMHC monitors and reports these risks through quarterly scenario analyses modelled using average historical prepayment experience and on a worst case basis.

Interest rate risk

The Corporation is exposed to interest rate risk when asset and liability principal and interest cash flows have different interest payments or maturity dates. The severity of this risk is largely dependent upon the size and direction of interest rate changes and on the size and maturity schedules of mismatched positions. Interest rate risk is mitigated through the matching of assets and liabilities and through the use of derivatives where mismatches exist. Unhedged interest rate risk is monitored and managed against internal risk tolerance limits set by an asset/liability management committee. Interest rate sensitivity analyses are performed by calculating the magnitude of cash flow fluctuations caused by changes in interest rates. At a 95 per cent confidence level, the negative change in the net interest margin for the next twelve months cannot exceed the limit of $1.5 million. This limit has never been exceeded.

MORTGAGE LOAN INSURANCE

The main risk of financial loss to the Corporation from mortgage loan insurance activity is represented by the amount of future claims associated with insured mortgages relative to insurance premiums received. Economic

conditions are the principal determinants that affect the incidence and magnitude of claim amounts. Changes in income, unemployment rates and, to a much lesser extent, changes in interest rates can impact a borrower's ability to continue making mortgage payments. The probability and loss severity of claims are affected by housing prices at both national and local levels.

Insurance-in-force

Insurance-in-force in 2009 was $472.6 billion. The following table shows the vast majority of mortgages have outstanding balances which have a loan to value ratio of under 80 per cent when based on the original lending value. If the lending value is brought up to current value of the properties, then the distribution shows an even greater percentage in the lower loan to value ranges. Equity build-up occurs through regular mortgage pay-downs and through accelerated or additional lump-sum payments, as well as through property value appreciation over time. These all contribute to lowering risk over time.

Insurance-in-force outstanding balance

	Loan to value ratio based on original lending value (%)	Loan to value ratio based on updated lending value (%)
95.01% and above	2.9	4.5
90.01% to 95%	14.0	8.5
80.01% to 90%	21.4	15.8
80% and lower	61.7	71.1

Percentages may not add up to 100 due to rounding.

Homeowner

Risks related to homeowner mortgage loan insurance insurance are assessed through CMHC's state-of-art automated underwriting system, **emili**. Incorporated within **emili** are borrower, market, property, and fraud risk assessment models. Together, these automated models provide CMHC underwriters, located in all regions of the country, with the tools to effectively assess applications for mortgage loan insurance. If necessary, underwriters can then take further steps to determine if risk-mitigating actions are required to effectively reduce the overall risk to a level that is acceptable and prudent. The most effective risk mitigating actions are continually researched and updated for underwriters. Management diligently monitors and, if necessary, adjusts its risk assessment models

based on actual claims experience and local market conditions. These automated models also provide the required information framework for the design of new or modified mortgage loan insurance products and their appropriate pricing.

Large rental properties (in excess of four units)
Risks associated with rental mortgage loan insurance are also assessed through detailed and thorough underwriting processes that include analysis and risk assessment of the borrower, market, property and loan characteristics. A standardized risk assessment tool is employed by underwriters to assign a risk rating to each of these major risk components. Based upon the risk rating and complexity of the application, the underwriters take risk mitigating actions that effectively ensure the risk being assumed is at a level that is acceptable and prudent. The risk ratings along with the size of the loan and policy considerations determine the appropriate approval authority.

Portfolio
Risk assessment for loans submitted for portfolio insurance is analogous to that of homeowner insurance. Low ratio homeowner loans are bundled into pools by lenders and assessed by CMHC through an automated underwriting system similar to **emili** which is used for high ratio loans. The assessments include an analysis and risk assessment of the borrowers, markets and property characteristics of the mortgages. Individual pools are then priced accordingly.

Quality Assurance Framework and Dynamic Financial Analysis
Through our Quality Assurance Framework, CMHC further manages insurance risks by assessing lenders' insured loan portfolios and working with lenders on a regular basis to maintain quality standards in the underwriting and servicing of their mortgage portfolios.

Sensitivity analysis of our insurance activity is carried out annually using Dynamic Financial Analysis (see Glossary) techniques. This allows CMHC Management and the Board to evaluate performance under various business and economic scenarios. The DFA sensitivity analysis indicates that available capital exceeds minimum recommended by OSFI by over 70 per cent in more than 90 per cent of cases, and does not fall below the minimum even in adverse scenarios. Given the results, the insurance activity remains well capitalized and it is highly unlikely that the investment portfolio would have to be drawn upon.

External actuarial valuation

CMHC operates its insurance business on a commercial basis with no assistance from the Government of Canada or Canadian taxpayers. CMHC Management ensures the financial viability of CMHC's insurance activity by making provisions for insurance policy liabilities in accordance with prudent actuarial practices and by setting aside earnings consistent with capitalization guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI). OSFI provides a risk-based capital adequacy framework which establishes regulatory capital requirements for Canadian property and casualty insurers, including mortgage insurers. Although not regulated by OSFI, CMHC follows OSFI's guidelines as a best-in-class business practice and our capitalization rate is approximately twice the recommended level. An annual independent external actuarial valuation ensures that policy liabilities related to all policy holder obligations in force are appropriate and in accordance with accepted actuarial practice.

SECURITIZATION

The major risk of financial loss to the Corporation arising from CMHC's guarantee is having to make timely payments when an insurer is unable to honour it commitments. All securitized mortgages have full mortgage default insurance coverage.

For NHA MBS, the risk associated with issuer default is mitigated by both quality assessment and monitoring of the issuers and by a minimum spread requirement between the security coupon and the lowest mortgage rate in the pool. In the event of issuer default, the minimum spread is made available to a third-party issuer for the continued servicing of both underlying mortgages and the NHA MBS payments.

For CMB and IMPP, in addition to the NHA MBS mitigations above, the risk associated with swap counterparty default is mitigated through program requirements for collateralization in the event that counterparty credit ratings are below specific ratings thresholds and the requirement that all principal run-off investments be rated R-1 (High) or AAA within CHT (for CMB) and government guaranteed for IMPP.

INSURANCE AND SECURITIZATION INVESTMENT PORTFOLIOS

Premiums from mortgage loan insurance activity and fees from securitization are invested in separate investment portfolios. The main sources of risk from our investment activities relate to credit and market risk. Credit risk in the portfolios arises from investments in fixed-income and equity securities. Market risk is generally defined as the risk of loss as a result of fluctuations in capital market conditions. Market risk includes changes in interest rates, foreign exchange values and equity prices.

CMHC uses its insurance investment portfolio (insurance premiums are received when the mortgage is taken out and cover the life of the mortgage) to cover obligations associated with its provision of insurance to lenders against borrower default on residential mortgages.

The investment objective for the insurance and securitization portfolios is to prudently maximize investment returns while maintaining sufficient liquidity to meet projected business requirements, including potential future claims and other liabilities. The investment object is subject to appropriate risk considerations and to the constraints outlined in CMHC's Funding, Investment and Risk Management Policies.

The size of the insurance investment portfolio has grown over the last few years and this trend is expected to continue. In 2009, the portfolio grew by $2.84 billion, from $13.11 billion to $15.95 billion, due primarily to positive net cash inflows.

Performance information, including absolute and relative risk-adjusted measures, is tracked and monitored in aggregate and at the individual asset class levels of the portfolio. As at December 31, 2009, the total return for the insurance portfolio was 8.99 per cent which was 0.32 per cent above the performance of the benchmark index. This performance was primarily due to strong performance of the fixed-income asset class.

The securitization investment portfolio is comprised of investments related to both the Mortgage-Backed Securities (MBS) program and the Canada Mortgage Bonds (CMB) program. As at December 31, 2009, the total return for the securitization portfolio was 8.98 per cent, which was 0.31 per cent above the performance of the benchmark index.

The investment management strategies for both portfolios are the same, as is the strategic asset allocation model which is outlined in the table below. Approximately 51.4 and 53.4 per cent of the total assets supporting the insurance and securitization activities at year end were invested in fixed-income securities issued or guaranteed by the Government of Canada or Canadian provinces.

As the majority of CMHC's insurance and securitization investment assets are held within the fixed-income portfolios, duration management is an important consideration in managing interest rate risk in the portfolios. The durations of the fixed-income investment portfolios are managed within ranges relative to the duration of the DEX Universe Bond Index (DEXUBI) benchmark. As at December 31, 2009, the insurance and securitization fixed-income portfolios had durations that were marginally shorter than the benchmark.

Insurance and Securitization Investment Portfolio Asset Mix (%)

Asset type	Strategic Allocation	Insurance	Securitization
Fixed-Income	78.0	76.8	77.7
Money Market	4.0	4.3	4.0
Canadian Equity	10.0	9.9	9.9
EAFE Equity	4.0	4.0	4.0
U.S. Equity	4.0	3.8	3.9
Other	0.0	1.2	0.5
Total	**100.0**	**100.0**	**100.0**

CMHC Management Enterprise Risk Management Letter of Representation

February 12, 2010

This Letter of Representation is provided to the Board of Directors in support of its responsibilities with respect to the identification of the main business risks outlined in the Board of Directors Mandate and By-Law 44 (relating generally to the conduct of the affairs of the Corporation). The intended purpose is to provide reasonable assurance that CMHC Management has identified and is managing the main business risks influencing CMHC's operating environment.

For and during 2009, CMHC Management through our enterprise risk management structure and process has:

- identified and assessed the main business risks to which CMHC is exposed and provided the Audit Committee of the Board of Directors and the Board of Directors with reports throughout the year that are intended to enable them to understand and be apprised of these risks, and
- reviewed CMHC's risk management policies to ensure that they continue to remain relevant and prudent under our current operating environment and, as required, recommended new policies and/or amendments to existing policies for the consideration by the Audit Committee and then approval by the Board of Directors.

Based on the work undertaken by CMHC Management during this period and our knowledge of the Corporation's affairs as of December 31, 2009, we represent that:

1. the risk management practices and policies currently in place to identify and manage the main business risks arising from these activities remain relevant and prudent, and that these practices and policies effectively support the Corporation's broader enterprise risk management efforts;
2. the adequacy and integrity of the Corporation's systems and management practices applied, in relation to the management of the main business risks of the Corporation, have been upheld; and
3. CMHC has an effective, corporate-wide, enterprise risk management structure and process in place.

In making this representation, CMHC Management has ensured that a reasonable level of consideration has been given to the identification and management of the main business risks to the Corporation.



Karen Kinsley, FCA
President and Chief Executive Officer

2005 TO 2010 FINANCIAL HIGHLIGHTS

Corporate Results	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Plan	2009 Actual	2010 Plan
Total Assets ($M)	101,093	124,218	148,168	203,461	345,318	272,821	321,200
Total Liabilities ($M)[1]	96,665	118,764	141,174	195,291	335,484	263,558	311,261
Reserve Fund ($M)	143	143	121	185	177	151	17
Total Equity of Canada ($M)	4,428	5,454	6,994	8,170	9,834	9,263	9,939
Total Revenues ($M)[1]	7,409	8,378	9,320	11,738	15,966	13,164	15,359
Total Operating Expenses ($M)[1&2]	303	298	347	385	460	416	494
Total Expenses ($M)[1]	5,945	6,896	7,746	9,319	14,061	11,939	14,091
Net Income ($M)	1,002	1,026	1,070	1,778	1,353	931	911
Other Comprehensive Income ($M)	n/a	n/a	(200)	(604)	65	483	42
Comprehensive Income ($M)	n/a	n/a	870	1,174	1,418	1,414	953
Staff-Years	1,804	1,877	1,888	1,945	2,030	1,999	2,138
Insurance							
Annual Insurance Units Approved	746,157	631,191	803,151	919,790	873,375	1,187,652	960,944
Insurance-in-force ($M)	273,700	291,400	345,200	407,700	440,800	472,564	519,100
Premiums and Fees Received ($M)	1,492	1,383	1,740	2,132	2,023	2,464	2,246
Investments (including cash) ($M)[3]	9,053	9,974	12,026	12,974	15,710	15,830	16,561
Unappropriated Retained Earnings ($M)	657	1,313	1,942	1,778	3,293	2,009	2,004
Retained Earnings Set Aside for Capitalization ($M)	3,406	3,731	4,258	5,423	5,304	5,937	6,769
Net Insurance Claims Expense ($M)	119	209	315	372	279	1,112	647
Net Income ($M)	951	981	1,022	999	1,243	742	999
Other Comprehensive Income ($M)	n/a	n/a	(187)	(527)	24	411	57
Comprehensive Income ($M)	n/a	n/a	835	472	1,267	1,153	1,056
Securitization							
Annual Securities Guaranteed ($M)	30,374	36,071	57,981	104,625	167,000	135,447	66,000
Guarantees-in-force ($M)	103,709	129,500	165,332	233,958	372,600	300,320	396,600
Borrowings from the Government of Canada ($M)	n/a	n/a	n/a	24,872	126,390	61,260	69,493
Fees Received ($M)	68	85	131	228	444	291	177
Investments (including cash) ($M)[3]	327	396	533	25,559	126,117	62,260	70,616
Unappropriated Retained Earnings ($M)	197	242	305	938	504	409	602
Appropriated Retained Earnings ($M)	n/a	n/a	n/a	n/a	n/a	538	603
Net Income ($M)	42	45	58	633	126	69	(70)
Other Comprehensive Income ($M)	n/a	n/a	(7)	(24)	41	27	(6)
Comprehensive Income ($M)	n/a	n/a	51	609	167	96	(76)
Housing Programs							
Housing Program Expenses ($M) (excluding operating expenses)	1,973	2,049	1,912	2,288	2,247	2,505	3,001
Affordable Housing Initiative Expenditures ($M)[4]	175	167	95	98	93	120	168
Estimated Households Assisted through long-term Commitments	633,000	630,000	626,300	623,700	621,700	620,000	612,700
New Commitments (units) under Renovations Programs:	21,990	20,535	19,049	21,506	18,712	18,000	18,783
On-reserve	508	2,421	1,171	1,063	1,169	1,193	1,069
Off-reserve	20,482	18,114	17,878	20,443	17,543	16,807	17,714
New commitments On-reserve Non-Profit Units[5]	1,045	4,393	1,442	945	774	822	697
Lending							
Loans and Investments in Housing Programs ($M)	13,170	12,706	12,341	12,340	12,210	11,727	12,795
Borrowings from Capital Markets ($M)	9,467	8,625	8,295	5,979	4,211	4,448	3,300
Borrowings from the Government of Canada ($M)	4,899	4,701	4,446	7,746	8,930	8,593	10,977
Net Income ($M)	9	0	(19)	64	(16)	(16)	(30)
Canada Housing Trust							
Assets ($M)	73,208	96,445	120,122	150,669	187,543	182,206	222,364
Liabilities ($M)	73,208	96,445	120,122	150,669	187,543	182,240	222,364

[1] *Historical results have been restated to reflect the consolidation of the Canada Housing Trust.*
[2] *Total Operating Expenses are included in Total Expenses line below.*
Excludes investments related to repurchase activities and accrued interest receivable.
[4] *Includes the extension of AHI, but not CEAP-related expenditures.*
[5] *Excludes CEAP units.*

Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Year ended 31 December 2009

CMHC Management is responsible for the integrity and objectivity of the consolidated financial statements and related financial information presented in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, consequently, include amounts which are based on the best estimates and judgement of Management. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

In carrying out its responsibilities, Management maintains appropriate financial systems and related internal controls within CMHC and controls, as guarantor of Canada Housing Trust, to provide reasonable assurance that financial information is reliable, assets are safeguarded, transactions are properly authorized and are in accordance with the relevant legislation, by-laws of the Corporation and government directives, resources are managed efficiently and economically, and operations are carried out effectively. The system of internal controls is supported by internal audit, which conducts periodic audits of different aspects of the operations.

The Board of Directors, acting through the Audit Committee whose members are not officers of the Corporation, oversees Management's responsibilities for financial reporting, internal control systems, and the controls as guarantor of Canada Housing Trust. The Board of Directors, upon the recommendation of the Audit Committee, has approved the consolidated financial statements.

Ernst & Young LLP, and Sheila Fraser, FCA, Auditor General of Canada, have audited the consolidated financial statements. The auditors have full access to, and meet periodically with, the Audit Committee to discuss their audit and related matters.



Karen Kinsley, FCA
President and Chief Executive Officer



P. Marc Joyal, CA
Vice-President, Corporate Services
and Chief Financial Officer

24 February 2010

Auditor General of Canada
Vérificatrice générale du Canada

ERNST & YOUNG

AUDITORS' REPORT

To the Minister of Human Resources and Skills Development

We have audited the consolidated balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2009 and the consolidated statements of income and comprehensive income, equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for financial instruments as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act*, the by-laws of the Corporation, and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
24 February 2010

CONSOLIDATED BALANCE SHEET

As at 31 December

(in millions of dollars)	Notes	2009	2008
ASSETS			
Cash and Cash Equivalents		4,242	2,983
Investment in NHA Mortgage-Backed Securities:	4		
Designated at Fair Value		143,791	123,737
Held to Maturity		59,000	24,767
Investment Securities:	4		
Designated at Fair Value		1,273	1,828
Available for Sale		14,347	11,676
Held to Maturity		54	51
Securities Purchased Under Resale Agreements	14	32,370	19,415
Loans:	5		
Designated at Fair Value		7,533	7,952
Other		3,255	3,381
Investments in Housing Programs		939	1,007
Due from the Government of Canada		476	217
Accrued Interest Receivable		812	814
Accounts Receivable and Other Assets		682	833
Derivatives	6	4,047	4,800
		272,821	203,461
LIABILITIES			
Securities Sold Under Repurchase Agreements	14	51	135
Unearned Premiums and Fees		7,177	6,221
Accounts Payable and Other Liabilities	8	694	438
Accrued Interest Payable		1,108	1,075
Derivatives	6	996	214
Provision for Claims	9	1,276	676
Future Income Tax Liabilities	7	202	223
Borrowings:			
Canada Mortgage Bonds	10,11	177,763	147,715
Capital Market Borrowings	11	4,438	5,976
Borrowings from the Government of Canada:			
Designated at Fair Value	11	4,477	3,511
Other	11	65,376	29,107
		263,558	195,291
Commitments and Contingent Liabilities	21		
EQUITY OF CANADA			
Contributed Capital		25	25
Accumulated Other Comprehensive Income (Loss)		207	(276)
Retained Earnings	12	9,031	8,421
		9,263	8,170
		272,821	203,461

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Approved by the Board of Directors:

Dino Chiesa
Chairperson, Board of Directors

Sophie Joncas, CA
Chairperson, Audit Committee

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year ended 31 December

(in millions of dollars)	Notes	2009	2008
REVENUES			
Interest Income from NHA Mortgage-Backed Securities		7,160	4,738
Premiums and Fees		1,804	
nterest Earned on Loans and Investments in Housing Programs	13	723	
Income from Investment Securities		704	
Net Realized Gains (Losses) from Financial Instruments	14	112	(8
Net Unrealized Gains (Losses) from Financial Instruments	14	(53)	96
Other Income		101	
		10,551	9,34
Parliamentary Appropriations for:			
Housing Programs		2,505	2,288
Operating Expenses		108	
		2,613	
		13,164	
EXPENSES			
Interest Expense	11	7,906	
Housing Programs	13	2,505	2,288
Net Claims		1,112	3
Operating Expenses		416	385
		11,939	9
INCOME BEFORE INCOME TAXES		1,225	
INCOME TAXES	7		
Current		313	418
Future		(19)	
		294	641
NET INCOME		931	
OTHER COMPREHENSIVE INCOME (LOSS)			
Net Unrealized Gains (Losses) from Available for Sale Financia Instruments (net of tax)		541	
Reclassification Adjustment for Net (Gains) Losses Included in Net Income (net of tax)		(58)	
		483	(604
COMPREHENSIVE INCOME		1,414	1,174

The accompanying notes to these consolidated financial statements are an integral part of these statement

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF EQUITY OF CANADA

Year Ended 31 December

(in millions of dollars)	Notes	2009	2008
Contributed Capital		25	25
Retained Earnings	12		
Unappropriated			
Balance at Beginning of Year		2,813	2,262
Effect of Adopting New Accounting Standards	3	(306)	-
Income Tax Benefit on Earnings Set Aside for Capitalization		3	2
Net Income		947	1,714
Set Aside for Capitalization		(1,052)	(1,165)
Balance at End of Year		2,405	2,813
Earnings Set Aside for Capitalization (Insurance)	12		
Balance at Beginning of Year		5,423	4,258
Set Aside for Capitalization		514	1,165
Balance at End of Year		5,937	5,423
Earnings Set Aside for Capitalization (Securitization)	12		
Balance at Beginning of Year		-	-
Set Aside for Capitalization		538	-
Balance at End of Year		538	-
Total Earnings Set Aside for Capitalization at End of Year		6,475	5,423
Reserve Fund for Lending	12		
Balance at Beginning of Year		185	121
Effect of Adopting New Accounting Standards	3	(18)	-
Net Income (Loss)		(16)	64
Balance at End of Year		151	185
Total Retained Earnings at End of Year		9,031	8,421
Accumulated Other Comprehensive Income (Loss)			
Balance at Beginning of Year		(276)	328
Other Comprehensive Income (Loss)		483	(604)
Balance at End of Year		207	(276)
Total Retained Earnings and Accumulated Other Comprehensive Income		9,238	8,145
Total Equity of Canada at End of Year		9,263	8,170

The accompanying notes to these consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December

(in millions of dollars)	2009	2008
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net Income	931	1,778
Items Not Affecting Cash or Cash Equivalents		
Amortization of Premiums and Discounts	(103)	
Future Income Taxes	(19)	
Change in Fair Value of Financial Instruments Carried at Fair Value	42	(938
Gain on Sale of Securities	(99)	
Net Change in Non-cash Operating Assets and Liabilities	1,495	
	2,247	
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
HTM and Designated at Fair Value NHA MBS		
Sales and Maturities	58,156	
Purchases	(114,403)	
AFS, HTM and Designated at Fair Value Investment Securities		
Sales and Maturities	14,411	
Purchases	(16,989)	(13,8
Loans and Investments in Housing Programs		
Repayments	818	8
Disbursements	(397)	(4
Change in Securities Purchased Under Resale Agreements	(12,954)	
	(71,358)	
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Canada Mortgage Bonds		
Issuances	47,248	42
Repayments	(13,050)	(20,3
Repayments of Capital Market Borrowings	(1,050)	(1,39
Borrowings from the Government of Canada Designated at Fair Value and Other		
Issuances	42,036	
Repayments	(4,776)	(338
Change in Short-term Borrowings	46	(1,423
Change in Securities Sold Under Repurchase Agreements	(84)	
Change in Securities Sold But Not Yet Purchased	-	(1,
	70,370	44,28
Increase/(Decrease) in Cash and Cash Equivalents	1,259	(4
Cash and Cash Equivalents		
Beginning of Year	2,983	
End of Year	4,242	2,983
Represented by:		
Cash	(23)	-
Cash Equivalents	4,265	2,983
	4,242	
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	7,880	6,235
Amount of Income Taxes Paid During the Year	326	487

1. CORPORATE MANDATE

The consolidated financial statements include the accounts of Canada Mortgage and Housing Corporation (CMHC, or the Corporation) and Canada Housing Trust (CHT), a variable interest entity. Within the Public Accounts of Canada, the annual consolidated Net Income reduces the government's annual deficit; the consolidated Retained Earnings and Accumulated Other Comprehensive Income reduce the government's accumulated deficit.

CMHC was established as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "*CMHC Act*") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also subject to Part X of the *Financial Administration Act* (the "FAA") by virtue of being listed in Part I of Schedule III, and is wholly owned by the Government of Canada.

In September 2008, the Corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the FAA requiring due consideration by the Corporation to the personal integrity of those it lends to or provides benefits to. During 2009, the Corporation completed the implementation of the requirements of Section 89(6) of the FAA and notified the Minister of Human Resources and Skills Development that the directive has been met.

The Corporation's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing, and the national well-being of the housing sector. The mandate is carried out through the following four activities:

Insurance: CMHC provides insurance against borrower default on residential mortgages.

Securitization: CMHC guarantees the timely payment of principal and interest for investors in securities based on insured mortgages. The CMHC guarantee is a direct and unconditional obligation of CMHC as an agent of Canada. It carries the full faith and credit of Canada, and constitutes a direct and unconditional obligation of and by the Government of Canada.

Housing Programs: CMHC receives Parliamentary appropriations to fund housing programs.

Lending: CMHC makes loans and investments in housing programs which are funded by borrowings. A significant number of these loans and investments are supported with housing program payments.

Canada Housing Trust was established in 2001 as an Issuer Trustee. CHT's functions are limited to the acquisition of interests in eligible housing loans such as NHA Mortgage-Backed Securities (NHA MBS), the purchase of highly rated investments, certain related financial hedging activities and the issuance of Canada Mortgage Bonds (CMB). The CMB are guaranteed by CMHC under its Securitization Activity. The beneficiaries of the Trust, after payment of all obligations, are one or more charitable organizations.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements are summarized on the following pages and conform in all material respects to GAAP.

The following are the significant accounting policies:

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with GAAP requires Management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, comprehensive income and related disclosures. Key areas where Management has made estimates and assumptions include those related to the provision for claims (Note 9), fair value of financial instruments (Note 14), and employee future benefits (Note 18). Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods.

Basis of Presentation

These consolidated financial statements include the accounts of CMHC and, as required by *Accounting Guideline 15 Consolidation of Variable Interest Entities* (AcG-15), the accounts of CHT, a variable interest entity (VIE). The assets and liabilities of CHT are neither owned by nor held for the benefit of CMHC. Inter-entity balances and transactions have been eliminated in the consolidated financial statements.

Financial Instruments

The Corporation classifies its financial assets in the following categories: designated at fair value, loans and receivables, held to maturity, held for trading and available for sale. Two classifications are used for financial liabilities: designated at fair value and other financial liabilities. The classification is determined by Management at initial recognition based on intent.

Classification	Accounting Treatment
Designated at Fair Value	Section 3855 provides an entity the option of designating a financial instrument as Held for Trading (HFT) on its initial recognition or on adoption of this standard, even if it was not acquired for the purpose of selling or repurchasing in the near term. Financial instruments which belong to a group managed and evaluated on a fair value basis in accordance with documented risk management strategies or would otherwise be recognized at amortized cost, causing significant measurement inconsistencies are designated at fair value under the fair value option. This designation is irrevocable. Financial instruments designated at fair value are measured at fair value. Gains and losses realized on disposition are recorded in Net Realized Gains (Losses) from Financial Instruments and gains and losses arising from changes in the fair value are recorded in Net Unrealized Gains (Losses) from Financial Instruments. Transaction costs are expensed as incurred.
Available for Sale (AFS)	AFS financial assets are non-derivative financial assets which are designated as such, or which have not been designated in any other classification. AFS financial assets are initially recognized at fair value plus transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in the fair value are recorded in Other Comprehensive Income (OCI) until the financial asset is sold, derecognized, or determined to be other than temporarily impaired. Interest income is recorded using the effective interest method. Accumulated Other Comprehensive Income (AOCI) consists only of unrealized gains and losses for AFS financial instruments.
Held to Maturity (HTM)	HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that Management has the positive intention and ability to hold to maturity. HTM financial assets are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.
Loans and Receivables	Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted debt securities. Loans and Receivables are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.
Held for Trading (HFT)	Derivatives and Securities Sold But Not Yet Purchased are classified as Held for Trading. Derivatives and Securities Sold But Not Yet Purchased are measured at fair value. Gains and losses realized on disposition are recorded in Net Realized Gains (Losses) from Financial Instruments and gains and losses arising from changes in the fair value are recorded in Net Unrealized Gains (Losses) from Financial Instruments. Transaction costs are expensed as incurred.
Other Financial Liabilities	Other Financial Liabilities are non-derivative financial liabilities which have not been designated at fair value. Other Financial Liabilities are initially recognized at fair value plus transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

Settlement date accounting is used for purchases and sales of financial assets. Realized gains and losses on sales are recognized on a weighted average cost basis.

The Corporation assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. For financial assets classified as HTM or Loans and Receivables that are identified as impaired, their carrying amounts are reduced to their estimated realizable amounts and the credit impairment is recorded in Net Realized Gains (Losses) from Financial Instruments. If an AFS financial asset is determined to be other than temporarily impaired, the unrealized loss recorded in Accumulated Other Comprehensive Income (AOCI) is reclassified and recorded in Net Realized Gains (Losses) from Financial Instruments. If the fair value of an other than temporarily impaired debt instrument classified as AFS subsequently increases due to events occurring after the initial impairment, the impairment loss is reversed with the amount of the reversal recognized in net income.

For the majority of Loans and Receivables, it is unlikely that a write down would be required as CMHC is assured full collection of principal and accrued interest through provisions in the Social Housing Agreements, provisions in the *National Housing Act*, Ministerial Loan Guarantees or the loans are underwritten though CMHC's Insurance Activity in which case provisions for claims are established. Loans that have not been underwritten or covered by a third party guarantee are assessed on a regular basis to determine if a provision for loss is necessary.

Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of cash and short-term, highly liquid investments with an original term to maturity of 98 days or less that are readily convertible to known amounts of cash. Cash Equivalents funded by Securities Sold Under Repurchase Agreements are classified as HTM. Cash Equivalents in the Lending and Insurance Activities are designated at fair value or classified as AFS respectively. Cash Equivalents in the Securitization Activity are either classified as AFS or HTM. Cash Equivalents must have a minimum credit rating of R-1 (Low) or equivalent as determined by S&P, Moody's or DBRS at the time they are purchased.

Investment Securities

Investment Securities in the Lending Activity and CHT are designated at fair value. Investment Securities in the Insurance Activity are classified as AFS. Investment Securities in the Securitization Activity are classified as AFS or HTM. Interest income on fixed income investments is recorded in Income from Investment Securities using the effective interest method. Dividend income is recorded in Income from Investment Securities when the right to the dividend is established.

Investment in NHA Mortgage-Backed Securities

Investment in NHA Mortgage-Backed Securities in the Securitization Activity is classified as HTM. Investment in NHA Mortgage-Backed Securities held by CHT is designated at fair value.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements (Reverse Repurchase Agreements) consist of the purchase of securities, typically government treasury bills or bonds, with the commitment to resell the securities to the origina seller at a specified price and future date in the near term. Securities Sold Under Repurchase Agreements

(Repurchase Agreements) consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term.

Securities Purchased Under Resale Agreements held by CHT and those entered into with proceeds from Securities Sold But Not Yet Purchased are designated at fair value.

The remainder of Securities Purchased Under Resale Agreements are classified as HTM and Securities Sold Under Repurchase Agreements are classified as Other Financial Liabilities. Proceeds from Securities Sold Under Repurchase Agreements are generally invested in Securities Purchased Under Resale Agreements or Cash Equivalents for the purpose of generating additional income. Such transactions are entered into simultaneously with matching terms to maturity. The associated interest earned and interest expense are recorded in Income from Investment Securities and Interest Expense respectively.

Loans

Loans that are part of portfolios which are economically hedged are designated at fair value under the fair value option.

All other loans are classified as Loans and Receivables. Where loans contain forgiveness clauses, they are recorded net of the forgiveness that is reimbursed through Parliamentary appropriations when the loans are advanced.

Interest income is recognized using the effective interest method in Interest Earned on Loans and Investments in Housing Programs.

CMHC is reimbursed for interest rate losses resulting from certain loans for housing programs containing interest rate clauses lower than the interest cost on the related borrowings, issued from 1946 to 1984 through provisions of the *National Housing Act*. These appropriations are voted on an annual basis by Parliament and CMHC has over a 30 year history of past collection of interest losses through appropriations. CMHC measures these loans at amortized cost which assumes the continued receipt of appropriations going forward. If the appropriations are not received in a future year, the loans would no longer be considered to have been issued at "market rates" and the valuation of these loans would change.

Investments in Housing Programs

Investments in Housing Programs represent CMHC's exposure through loans made to various housing projects and are carried at amortized cost. These financial assets are classified as Loans and Receivables. Interest income on Investments in Housing Programs is recorded in Interest Earned on Loans and Investments in Housing Programs on an accrual basis using the effective interest method. The Corporation's portion of net operating losses and disposal losses on the housing programs is reimbursed through Parliamentary appropriations.

Derivatives

The Corporation enters into derivatives such as interest rate swaps, cross currency interest rate swaps, interest rate futures and equity index futures in order to manage its exposures to market risks. Swaps are only contracted with creditworthy counterparties that maintain a minimum rating of A- or equivalent as determined by S&P, Moody's or DBRS and are not used for speculative purposes.

Derivatives are classified as HFT as they have not been designated as eligible hedges for accounting purposes and are carried at fair value on the Consolidated Balance Sheet. Derivatives with a positive fair value are reported as assets, while derivatives with a negative fair value are reported as liabilities.

Derivatives may be embedded in other financial instruments and are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not HFT or designated at fair value.

Securities Sold But Not Yet Purchased

Securities Sold But Not Yet Purchased represent an obligation to deliver Government of Canada Bonds which are not owned at the time of sale. These obligations are classified as HFT.

Premiums and Fees

Insurance:

Insurance premiums are due at the inception of the mortgage being insured at which time they are deferred and recognized as income over the period covered by the insurance contract using factors determined by an Appointed Actuary. These factors reflect the long-term pattern for default risk of the underlying mortgages.

Unearned premiums represent the portion of the premiums written that relates to the unexpired portion of the policy at the Balance Sheet date and therefore relate to claims that may occur from the Balance Sheet date to the termination of the insurance policies. Annually, the unearned premiums are compared to an estimate of total future claims on a discounted basis to ensure the amount is sufficient. Should such amount not be sufficient, a provision for premium deficiency would be recorded.

Application fees and direct costs associated with issuing mortgage insurance policies are deferred and amortized on the same basis as the related premiums.

Securitization:

Guarantee fees from the Securitization Activity are received at the inception of the related security issue at which time they are deferred and recognized as income over the expected term of the related security.

Application fees and direct costs associated with issuing the timely payment guarantees are deferred and amortized over the term of the security issue on a straight-line basis.

Provision for Claims

The Provision for Claims represents an estimate for expected claims and the related settlement expenses, net of the related expected property sale proceeds, for defaults from the insurance business that have occurred on or before the Balance Sheet date. The provision takes into consideration the estimate of losses on defaults that have been incurred but not reported, the time value of money and in accordance with accepted actuarial practice, includes an explicit provision for adverse deviation.

The establishment of the Provision for Claims involves estimates which are based upon historical trends, prevailing legal, economic, social and regulatory trends, and expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps significantly, from the estimates made.

The loss on actual mortgage defaults and the change in the estimated Provision for Claims are recorded in Net Claims in the year in which they occur.

Income Taxes

CMHC is a prescribed federal Crown corporation under Reg. 7100 of the *Income Tax Act* (ITA) and is subject to federal income tax as a prescribed corporation for purposes of subsection 27(2) of the ITA. It is not subject to provincial income tax. CHT is subject to federal and provincial income taxes on the amount of taxable income for the period and is permitted a deduction for all amounts paid or payable to CHT's beneficiaries in determining income for tax purposes. As all taxable income was distributed to the beneficiaries, no provision for income taxes has been reflected for CHT in these consolidated financial statements.

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the estimated tax effect of temporary differences between the carrying value of assets and liabilities on the financial statements and their respective tax bases. The Corporation uses substantively enacted income tax rates at the Balance Sheet date that are expected to be in effect when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

Canada Mortgage Bonds

Canada Mortgage Bonds (CMB), which are issued by CHT and guaranteed by CMHC, are interest bearing bullet bonds. Coupon interest payments are made semi-annually for fixed-rate CMB and quarterly for floating-rate CMB. Principal repayments on the bonds are made at the end of the term. CMB are designated at fair value. The Approved MBS Sellers reimburse CHT for the cost of arranging financing, including the fees paid to CMHC as Guarantor and Financial Services Advisor, underwriters and others for the distribution of CMB.

Capital Market Borrowings

Capital Market Borrowings represent borrowings incurred between 1993 and April 2008. These borrowings are designated at fair value. Transaction costs on Capital Market Borrowings are recognized in Interest Expense in the year incurred.

Borrowings from the Government of Canada

Borrowings Designated at Fair Value:

Since April 2008, the Lending Activity has been borrowing under terms of the Crown Borrowing Agreement. These borrowings are designated at fair value. Expenses related to these borrowings are recognized in Interest Expense in the year incurred.

Other Government of Canada Borrowings:
Other Government of Canada borrowings represent borrowings in the Lending and Securitization Activities under terms of the Crown Borrowing Agreement, as well as borrowings incurred prior to 1993 in the Lending Activity. These borrowings are classified as Other Financial Liabilities and transaction costs are recognized in Interest Expense.

Housing Programs

Parliamentary appropriations for Housing Programs, and the related expenses, are recorded on an accrual basis not exceeding the maximum voted by Parliament. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Employee Future Benefits

CMHC provides a defined benefit pension plan, a supplemental pension plan, and other post-employment benefits consisting of severance pay, life insurance and medical insurance.

Pension benefits are based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The pension benefits are adjusted annually by a percentage equivalent to the total average change in the Consumer Price Index during the previous year. The obligations under employee benefit plans and unamortized related costs, net of plan assets, are accrued.

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected long-term pension plan investment performance, salary increases, retirement ages of employees, mortality of members and expected health care costs. These assumptions are of a long-term nature, which is consistent with the nature of employee future benefits. Actual results could differ from these estimates.

Costs are determined as the cost of employee benefits for the current year's service, interest cost on the accrued benefit obligation, expected investment return on the fair value of plan assets, and the amortization of the transitional asset/obligation, the deferred past service costs and the deferred actuarial gains/losses.

The transitional asset/obligation and past service costs are deferred and amortized on a straight-line basis over the expected average remaining service period of active employees under the plans. The excess of the net actuarial gain/loss over 10% of the greater of the benefit obligation or the fair value of the plan assets is deferred and amortized on a straight-line basis over the expected average remaining service period of active employees under the plans. The expected average remaining service period of the employees covered by the pension plan, supplemental pension plan and other post-employment benefits is 10, 9 and 12 years respectively (2008 – 10, 9 and 12 years).

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Exchange gains and losses resulting from the translation of foreign denominated balances are included in Net Unrealized Gains (Losses) from Financial Instruments.

3. CHANGE IN ACCOUNTING POLICY

2009 Accounting Changes

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities:
The Corporation adopted CICA Handbook Emerging Issues Committee (EIC) abstract 173 effective 1 January 2009 which requires an entity to take into account its own credit risk and that of its counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments.

In accordance with the transitional provisions, this abstract was applied retrospectively without restatement of prior years. A transitional unrealized loss of $324 million was applied to opening Retained Earnings for derivative financial instruments classified as HFT. The impact of the implementation of EIC-173 on the 2009 closing Retained Earnings was an unrealized loss of $38 million for derivative financial instruments classified as HFT. The change in fair value of the derivative financial instruments classified as HFT for the year 2009, resulting from the implementation of EIC-173, is a $286 million unrealized gain recorded in Net Unrealized Gains/Losses from Financial Instruments in Consolidated Net Income.

Financial Instruments:
In March 2009, the Accounting Standards Board (AcSB) amended CICA Handbook Section 3862, *Financial Instruments – Disclosures*, to enhance the disclosure requirements regarding fair value measurements including the relative reliability of the inputs used in those measurements and the liquidity risk of financial instruments. The standard also requires disclosure of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The amendments are effective for CMHC's 2009 Financial Statements and adoption did not have an impact on the financial position, cash flows, or earnings of CMHC.

Effective 1 April 2009, CMHC adopted a number of amendments to CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*. The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments did not have an impact on the financial position, cash flows, or earnings of CMHC.

Future Accounting Changes – International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of the CICA affirmed its intention to replace Canadian GAAP with IFRS. CMHC will adopt IFRS commencing 1 January 2011, with comparatives for the year commencing 1 January 2010. CMHC is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

4. SECURITIES

The following table shows the maturity structure and average yield for Investment in NHA Mortgage-Backed Securities. The NHA MBS maturities are estimated based on assumptions regarding mortgage prepayments (1% annually) and liquidations (4% annually). Prepayments and liquidations are mortgage principal repayments that are received sooner than the stated amortization period of the mortgage. Both are percentage rate assumptions on principal amounts outstanding, determined by CMHC, and based on historical performance/trends.

	Remaining Term to Maturity					
(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2009	2008
Designated at Fair Value						
Corporate/Other Entities	38,119	67,281	34,842	3,549	143,791	
Yield[1]	1.61%	1.65%	2.19%	4.45%	1.80%	
Held to Maturity						
Corporate/Other Entities	12,074	19,372	27,554	-	59,000	24,767
Yield[1]	4.74%	4.67%	4.23%	-	4.48%	4.93

[1] Represents the weighted-average yield, which is determined by applying the weighted

The following table shows the maturity structure and average yield for Investment Securities

	Remaining Term to Maturity					
(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2009	2008
Designated at Fair Value						
Corporate/Other Entities	494	64	34	93	685	
Government of Canada	145	141	41	-	327	49
Provinces/Municipalities	31	119	111	-	261	10
Sovereign and Related Entities	-	-	-	-	-	
Total Designated at Fair Value	670	324	186	93	1,273	1,828
Yield[1]	1.28%	2.55%	1.90%	0.00%	1.49%	2.77
Available for Sale						
Fixed Income						
Corporate/Other Entities	67	877	943	2,328	4,215	3,8
Government of Canada	4	928	782	1,343	3,057	1,1
Provinces/Municipalities	25	452	574	2,468	3,519	3,4
Sovereign and Related Entities	-	133	129	232	494	1,0
Total Fixed Income	96	2,390	2,428	6,371	11,285	9,38
Yield[1]	2.88%	3.35%	3.79%	4.49%	4.07%	
Equities						
Canadian Equities					1,688	1,0
U.S. Equities					686	1,1
Foreign Equities					688	1,1
Total Equities					3,062	3,3
Yield[2]					2.41%	2.9
Total Available for Sale					14,347	12,6
Held to Maturity						
Government of Canada	50	-	4	-	54	
Corporate/Other Entities	-	-	-	-	-	
Total Held to Maturity	50	-	4	-	54	
Yield[1]	0.41%	-	2.20%	-	0.56%	

[1] Represents the weighted-average yield, which is determined by applying the weighted-average of the effect

[2] Represents the average yield, which is determined b

Consolidated Financial Statements

The following table shows the unrealized gains (losses) on Investment in NHA MBS and Investment Securities recorded at fair value.

	2009				2008	
(in millions of dollars)	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost[1]	Fair Value
Investment in NHA MBS:						
Designated at Fair Value	141,117	2,770	(96)	143,791	119,022	123,737
Investment Securities:						
Fixed Income						
Designated at Fair Value	1,271	13	(11)	1,273	1,812	1,828
Available for Sale	11,025	326	(66)	11,285	9,362	9,386
Equities	2,993	333	(264)	3,062	2,674	2,290

[1] Amortized cost for Equities is cost.

Sales of investment securities in the Insurance and Securitization Activities resulted in a net gain of $102 million (2008 – $54 million) which has been recorded in Net Realized Gains (Losses) from Financial Instruments. There were no gains/losses (2008 – nil) associated with the sale of investment securities in the Lending Activity. In addition, there have been no sales of investment securities by CHT.

CMHC has investment securities of $52 million (2008 – $136 million) that have been pledged as security against Securities Sold Under Repurchase Agreements. The terms of these transactions do not exceed 3 months / 93 days, the credit rating of the instruments must be at a minimum of R-1 (mid) and be issued by a financial institution. CMHC continues to earn interest income and recognizes in OCI changes in fair values on these investment securities during the period pledged. The cumulative loss of $330 million included in Accumulated Other Comprehensive Income (2008 – $741 million) has not been recognized as an impairment loss in Net Income because CMHC believes that the decline in fair value is temporary. Factors reviewed to determine whether an impairment is other than temporary include significant or prolonged declines in fair value, financial reorganization, corporate restructuring, bankruptcies and other indications of liquidity problems, or the disappearance of an active market for the asset because of financial difficulties. During 2009, apart from the write-down on transfer of Mav II notes and Mav III notes disclosed below, no losses (2008 – $12 million) were recognized in Net Realized Gains (Losses) from Financial Instruments and no reversals of previously realized fixed income investment security impairments occurred during the year.

Master Asset Vehicle Notes (MAV II Notes and MAV III Notes)

On 20 August 2007, the Canadian market for Third-Party Sponsored Asset-Backed Commercial Paper (ABCP) became illiquid resulting in these investments not paying on maturity. The Pan-Canadian Investors Committee, on 23 December 2007, approved an agreement in principle to restructure the affected series of ABCP.
On 24 December 2008, an agreement was reached between all main stakeholders, including the governments of Canada, Ontario, Quebec and Alberta concerning the restructuring of $32 billion in Third-Party ABCP.
The implementation of the restructuring plan was finalized on 21 January 2009.

The affected ABCP was replaced with new longer-term floating rate notes with maturities designed to more closely match the maturities of the underlying assets, with the pooling of certain assets as the establishment of margin funding facilities to support any future collateral calls. On 21 January 2009, CMHC's series of affected ABCP supported in whole or part by traditional, ineligible and synthetic assets were pooled into Master Asset Vehicle Notes (MAV II notes and MAV III notes) as follows:

- Master Asset Vehicle II Notes (MAV II notes) – is a vehicle for investors who elected to commit less than, or none of their pro rata share of margin funding facility, in which case third parties will fund the remaining pool. A mixture of Class A-1, Class A-2, Class B and Class C notes were received with an expected maturity in January 2017. Ineligible assets in MAV II notes were segregated, and note holders holding series of ABCP secured in part by ineligible assets received ineligible asset (IA) tracking notes that reflect the performance of the underlying asset.

- Master Asset Vehicle III Notes (MAV III notes) – is a vehicle secured exclusively by traditional assets or ineligible assets. Two main types of notes were created in MAV III notes: traditional asset (TA) tracking notes for traditional assets and ineligble asset (IA) tracking notes for ineligible assets. All tracking notes are tied to the net return and maturities of their respective underlying assets.

The margin funding facilities in MAV II notes are provided by third-party lenders, including the Government of Canada and the Provinces of Quebec, Ontario and Alberta. The facilities provided by the governments rank senior to other margin funding facilities, and, in the event of margin calls, they will be last in and first out. These facilities are designed to reduce the risk that the newly formed vehicle will not be able to meet margin calls if future circumstances warrant them. The key parties to the restructuring agreement also agreed to enhance the transaction by including a moratorium of 18 months following the closure, 21 January 2009, during which time no margin calls would be permitted.

At 31 December 2009, the face value of MAV II notes and MAV III notes held by CMHC was $184 million all of which was classified as Designated at Fair Value. At 31 December 2008, the Corporation held $239 million of Third-Party Sponsored ABCP, of which, $60 million was classified as Available for Sale, $102 million as Designated at Fair Value and $77 million as Held to Maturity. On 21 January 2009 the ABCP position for which [illegible] estimated at an original cost of $239 million was replaced with MAV II notes and MAV III notes with a discounted value of $237 million; the $2 million difference in value was due to the original notes being booked at their maturity value. During the year, $53 million of MAV III notes were repaid.

The following table reconciles the face value of CMHC's Third-Party ABCP to the face value of CMHC's Master Asset Vehicle notes held at 31 December 2009.

	2009					2008
(In millions of dollars)	Opening Balance	Transfer of MAV II & III Notes	Reclassified	Payments Received	MAV II & III Notes	ABCP Face Value
Designated at Fair Value	102	100	137		184	
Available for Sale	60	60	(60)			
Held to Maturity	77	77	(77)	-		
Total	239	23			184	

On 21 January 2009, a valuation of these assets resulted in a carrying value of $160 million (comprised of $152 million in face value, $11 million in accrued interest receivable and $3 million in accrued costs payable) a $5 million write-down from the 31 December 2008 carrying value of $165 million. During the year, $53 million towards note principal and $7 million towards accrued interest was received and a $7 million fair value adjustment was recorded which resulted in a carrying value of $93 million at 31 December 2009.

The following table presents the carrying value by Master Asset Vehicle type at 31 December 2009.

	2009					2008
(in millions of dollars)	Opening Balance	Write-downs on transfer	Payments Received	Fair Value Adjustments	Carrying Value	Carrying Value
Master Asset Vehicle II Notes[1]	104	(5)	-	(8)	**91**	104
Master Asset Vehicle III Notes[2]	53	-	(53)	1	**1**	53
	157	(5)	(53)	(7)	**92**	157
Accrued Interest Receivable	11	-	(7)	-	**4**	11
Accrued Costs	(3)	-	-	-	**(3)**	(3)
Total	165	(5)	(60)	(7)	**93**	165

[1] 2008 carrying value represents value of Syntnetic ABCP
[2] 2008 carrying value represents value of Traditional Securitized ABCP

On 21 January 2009, MAV II Class A1 and A2 notes received an A rating from DBRS. On 11 August 2009, MAV II Class A-2 notes were downgraded to BBB (low), and the rating "under review with negative implications". During the last two quarters of 2009, the MAV notes have not experienced any other rating changes.

5. LOANS

Loans

CMHC provides loans either independently or jointly with provincial, territorial, and municipal authorities. Loans were issued for terms up to 50 years and $10,531 million (2008 – $11,088 million) are due beyond five years.

Approximately $10,235 million, representing 95% (2008 – $10,813 million, or 95%) of the loans, are supported with housing program payments outlined in Note 13.

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the amortized cost of loans that are past due.

	2009			
(in millions of dollars)	Within 1 Year	1 to 3 Years	Over 3 Years	Total
Loans past due	137	14	15	166

At 31 December 2009, CMHC is assured full collection of principal and accrued interest on the majority of the loans. The following table presents the source of guarantee.

	2009	2008
Provinces and Territories (provisions in the Social Housing Agreements)	43%	44
Government of Canada (provisions in the NHA)	23%	23
Indian and Northern Affairs Canada (Ministerial Loan Guarantees)	10%	
CMHC's Insurance Activity[1]	23%	2
No third party guarantee	1%	

[1] Provision for losses on loans underwritten by CMHC's Insurance Activity is included in the determination of P

Loans that have not been underwritten or covered by a third party guarantee (2009 – 1%, 2008 – N/A) are assessed on a regular basis to determine if a provision for loss is necessary. As at 31 December 2009, no impaired loans have been identified and no provision for loss has been recorded.

As described in Note 2, CMHC receives interest loss recoveries on certain loans containing interest rate clauses lower than the interest cost on the related borrowings. Of the future cash flows to be received on these loans, approximately 2% (with a fair value of $93 million) will be recovered from the government and the remainder will be recovered directly from the borrowers. The following table presents the estimated recoveries on these loans from the government for the next five years.

(in millions of dollars)	2010	2011	2012	2013	2014
Interest Loss Recoveries					

Investments in Housing Programs

CMHC makes loans to housing programs either independently or jointly with provincial, territorial, and municipal authorities. The majority of these loans to housing programs are being transferred to the Provinces/Territories under the Social Housing Agreements (SHAs). For the most part, the Provinces/Territories are gradually acquiring CMHC's interest in the housing programs by making payments to CMHC. Once fully reimbursed, CMHC will have no remaining claim on the projects involved.

Approximately $939 million, representing 100% (2008 – $1,007 million, or 100%) of the investments in housing programs, are supported with housing program payments outlined in Note 13.

At 31 December 2009, CMHC is assured full collection of principal and accrued interest on its Investments in Housing Programs. The following table presents the source of guarantee.

	2009	2008
Provinces and Territories (provisions in the Social Housing Agreements)	96%	
Government of Canada (provisions in the NHA)	4%	4

6. DERIVATIVES

Derivatives are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives (interest rate swaps, cross currency interest rate swaps, interest rate futures and equity index futures) i
management activities.

Interest rate swaps are transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged. The value of these swaps is derived from movements in interest rates. They are used to manage reinvestment risk, refinancing risk, or mismatches in the timing of receipts from assets versus payments of liabilities.

Cross currency interest rate swaps are transactions in which two parties exchange currencies and interest cash flows on a specified notional amount for a predetermined period. The notional amount is exchanged at inception and at maturity. The value of these swaps is derived from movements in foreign exchange and interest rates. They are used to manage foreign exchange risk arising from foreign denominated debt.

Interest rate and equity index futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price established by an organized financial market. The credit risk is reduced as changes in the futures' contract value are settled daily. Futures are used to manage asset allocation in the Insurance and Securitization Activities.

The table below provides the notional amounts of the Corporation's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments. The Corporation does not have derivatives embedded in other financial instruments (host contracts) which require separation.

		2009			2008		
			Fair Value			Fair Value	
(in millions of dollars)	Average Term to Maturity	Notional Amount	Asset	Liability	Notional Amount	Asset	Liability
Interest Rate Swaps	4 years	250,967	**4,047**	**766**	181,523	4,671	207
Cross Currency Interest Rate Swaps	1 year	2,344	**-**	**230**	2,344	129	7
Interest Rate Futures		-	**-**	**-**	(149)	-	-
Total		253,311	**4,047**	**996**	183,718	4,800	214

7. INCOME TAXES

The following is a reconciliation of the statutory tax rate.

(in millions of dollars)	2009	2008
Income Taxes Computed at Statutory Tax Rate (2009 – 29%, 2008 – 30%)	**355**	714
Change in Tax Rates on Future Income Taxes	**2**	(34)
Impact of Retroactive Application of Tax Legislation Enacted in 2009[1]	**(13)**	-
Permanent Differences	**(10)**	(11)
Impact on Consolidation with CHT	**(40)**	(25)
Other	**-**	(3)
Income Tax Expense	**294**	641

(1) The impact of the retroactive tax legislation is due to the enactment of Bill C-10 in 2009. Bill C-10 contained amendments that affected the taxation of financial instruments. These amendments were applicable to CMHC for the taxation years beginning on 1 January 2007 and 1 January 2008.

The following table presents the total income taxes.

(in millions of dollars)	2009	2008
Other Comprehensive Income:		
Net Unrealized Gains/(Losses) on Available for Sale Financial Instruments	224	(219
Reclassification Adjustment for Net (Gains)/Losses Included in Net Income	(23)	(18
Income Tax Benefit on Other Comprehensive Income	201	
Income Tax (Benefit) on the Effect of Adopting New Accounting Standards	(26)	
Income Tax (Benefit)/Cost on Earnings Set Aside for Capitalization	(3)	
Income Tax Expense on Consolidated Statement of Equity of Canada	172	(239)
Income Tax Expense on Consolidated Net Income	294	
Total	466	40
Total Current Taxes	514	288
Total Future Taxes	(48)	
Total	466	4

The following table presents the tax-effected temporary differences which result in future income tax assets and liabilities.

(in millions of dollars)	2009	2008
Future Income Tax Assets		
Fair Value of Financial Instruments	78	
Employee Future Benefits	23	
Unamortized Premiums on Capital Market Borrowings	2	
Other	4	
Total Future Income Tax Assets	107	
Future Income Tax Liabilities		
Insured Mortgage Purchase Program (IMPP)	(136)	(18
Fair Value of Financial Instruments	(53)	
Deferred Gains on Disposal of Financial Instruments	(9)	
Provision for Claims	(75)	
Pension Benefits	(21)	
Deferred Issuance Costs	(13)	
Other	(2)	
Total Future Income Tax Liabilities	(309)	
Net Future Income Tax Assets (Liabilities)	(202)	(22

CMHC expects to realize its future income tax assets in the normal course of its operations.

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

The following table presents the composition of Accounts Payable and Other Liabilities.

(in millions of dollars)	2009	2008
Accrued Housing Program Expenses	399	173
Accrued Benefit Liability for Supplemental Pension Plan and Other Post-employment Benefits	134	119
Deferred Gains	34	22
Obligation Under Capital Lease	15	17
Other Miscellaneous Liabilities	112	107
Total	694	438

9. INSURANCE

Role of the Appointed Actuary

The actuary is appointed by CMHC's Management to carry out a valuation of the policy liabilities of the mortgage insurance activity as at 30 September and to provide an opinion to Management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with Canadian accepted actuarial practice, applicable legislation, and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a Provision for Claims and Unearned Premiums. In performing the valuation of the liabilities for these contingent future events, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of CMHC and the nature of the insurance policies. The appointed actuary also performs a roll-forward of the Provision for Claims from the date of the actuarial valuation to 31 December.

Insurance Premiums

Mortgage insurance premiums are recognized as revenue over the period covered by the insurance contracts using actuarially determined factors that are reviewed at least triennially. Effective 1 January 2009, these factors were changed to more closely reflect the emerging nature of the claim occurrence experience. Premiums and Fees revenue on the Statement of Income and Comprehensive Income is $127 million higher in 2009 while Unearned Premiums and Fees on the Consolidated Balance Sheet as at 31 December 2009 is $127 million lower than it would have been had this change not been implemented. Due to the change, Unearned Premiums and Fees is expected to be $210 million lower at 31 December 2010 and $245 million lower at 31 December 2011, resulting in Premiums and Fees revenue being $83 million higher in 2010 and $35 million higher in 2011.

Provision for Claims

The establishment of the Provision for Claims for mortgage insurance is based on known facts and interpretation of circumstances, and is therefore a complex and dynamic process, influenced by a large variety of factors.

The following factors affect the key actuarial assumptions.

Claim emergence: Claim emergence encompasses claim frequency and claim occurrence patterns. It is based on historical trends in claims and arrears reporting.

Claim severity: Claim severity, or average loss on claims, is dependent on the dollar value of claims, losses on sales of real estate properties, administrative expenses, payment delays and sales delays. These factors are generally based on historical experience.

Economic conditions: Recent past and projected economic factors, such as unemployment rates, mortgage interest rates, and changes in house prices, affect the forecast of future claim levels.

The Provision for Claims consists of projections based on known losses and related expenses. Actual incurred amounts may not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories for which the Corporation has not accumulated sufficient historical experience.

Provisions are reviewed and evaluated at 30 September in light of emerging claim experience and changing circumstances. The resulting changes in the estimated Provision for Claims are recorded in Net Claims in the year in which they are determined.

CMHC determines Provisions for Claims and Unearned Premiums at 31 December using valuation factors from the 30 September valuation, taking into account premiums received and claims paid in the intervening period.

Change in Provision for Claims

(In millions of dollars)	2009	2008
Balance, Beginning of Year	676	
Impact of Increased Business Volumes	83	
Change in Assumptions:		
Claim Emergence	(23)	
Claim Severity	(16)	
Economic Conditions	533	
Other	23	
Balance, End of Year	1,276	6

CMHC uses Dynamic Financial Analysis (DFA) to model the impact on the Insurance Activity of adverse economic shocks, including recessions. Recessions can involve a combination of adverse mortgage interest rate impacts, high unemployment rate outcomes and deteriorating house prices, each of which will have an impact on the Provision for Claims. In isolation, an increase of 100 basis points in the unemployment rate would be expected to increase the Provision for Claims by about $150 million, while a decrease of 100 basis points in the rate of house price inflation would increase the Provision for Claims by about $25 million and an increase of 100 basis points in mortgage rates would increase the Provision for Claims by about $40 million over a one year horizon. These would be persistent, lasting until the rates revert back to their previous level.

Changes in actuarial assumptions for claim emergence and claim severity primarily have longer term impacts. It is estimated that for every 5% change in the estimate of future claim severity or every 5% change in the estimate of future claim frequency, the effect on Income Before Income Taxes would be an increase/decrease of approximately $5 million, $10 million, $14 million, $18 million and $21 million in each of the Corporate Plan years (2010-2014) respectively.

The impact of changes in business volumes is also spread out over a number of years, depending on assumptions for claim emergence.

These sensitivities are hypothetical and should be viewed in that light. The relationship of a change in assumption to the change in value may not be linear. Changes in one factor may result in changes in another which might magnify or counteract the sensitivities.

Insurance-in-force

Under Section 11 of the NHA, the total of all outstanding insured amounts of all insured loans may not exceed $600 billion (2008 – $450 billion). At 31 December 2009, insurance-in-force totalled $473 billion (2008 – $408 billion).

10. SECURITIZATION

CMHC guarantees the timely payment of principal and interest for investors in securities issued by Approved Issuers (primarily lending institutions), on the basis of housing loans through the NHA MBS program and the CMB issued by CHT.

CMHC also purchases insured mortgage pools, through reverse auction, using funds supplied by the Government of Canada to help Canadian financial institutions raise longer-term funds and make them available to consumers, homebuyers and businesses in Canada.

CMHC has determined that a provision for claims on these programs is not required. This is based on historical results and program design whereby only insured mortgages are eligible for securitization.

Guarantees-in-force

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed $600 billion (2008 – $450 billion). At 31 December 2009, guarantees-in-force totalled $300 billion (2008 – $234 billion). This includes $124 billion of CMHC guaranteed NHA MBS (2008 – $92 billion) of which CMHC has purchased $59 billion (2008 – $25 billion) and $176 billion (Par Value) of CMHC guaranteed CMB issued by CHT (2008 – $142 billion).

11. BORROWINGS

Canada Mortgage Bonds

The following table summarizes the carrying value and yield for the CMHC-guaranteed CMB issued by CHT based on maturity date.

	2009		2008
(In millions of dollars)	Carrying Value	Yield[1]	Carrying Value
2009	-	-	13,25
2010	18,660	3.03%	
2011	37,161	4.07%	37,5
2012	39,477	4.30%	38,22
2013	36,178	3.37%	37,216
2014	35,702	2.35%	
2015-2019	10,585	3.22%	2,087
Total	177,763	3.46%	147,715

1) Represents the weighted-average yield, which is determined by applying the weighted average effect average yields to reset of floating-rate bonds

In order to meet the principal obligations of the CMB, the principal payments and prepayments from the underlying NHA MBS are held in an account in the name of CHT, managed and reinvested into eligible assets, which include Investment Securities, Cash Equivalents and Securities Purchased Under Resale Agreements, by the swap counterparties pursuant to contractual agreements.

The carrying amount of CMB at 31 December 2009 is $5,258 million (2008 – $7,885 million) higher than the contractual amount due at maturity. CMB are guaranteed by CMHC and CMHC's liabilities are backed by the full faith and credit of the Government of Canada. Therefore, there is no significant change in value that can be attributed to changes in credit risk.

Borrowing Authorities

The Minister of Finance approves CMHC's Borrowing Plan annually and establishes limits and parameters for borrowings. The Borrowing Authorities provide a maximum debt outstanding limit for 2009 of $136.5 billion. This limit includes Capital Market Borrowings and Borrowings from the Government of Canada that were incurred since April 2008 in the Lending and Securitization Activities. CMHC's legislative authority, which does not apply to borrowings of CHT, requires that the total indebtedness of the Capital Market Borrowings outstanding at any time not exceed $20 billion.

Capital Market Borrowings

The following table summarizes the carrying value and yield for Capital Market Borrowings based on maturity date. Capital Market Borrowings include U.S. denominated debt. Foreign currency principal and interest payments are fully swapped to Canadian dollar obligations.

(in millions of dollars)	2009 Foreign Currency Borrowings[1]	2009 Carrying Value	2009 Yield[2]	2008 Carrying Value
2009	-	-	-	1,068
2010	1,342	1,342	4.34%	1,584
2011	836	942	5.07%	1,098
2012	-	323	5.53%	332
2013	-	376	4.83%	385
2014	-	-	-	-
2015-2019	-	1,455	4.33%	1,509
Total	2,178	4,438	4.61%	5,976

[1] Canadian equivalent of U.S. denominated debt.

[2] Represents the weighted-average yield, which is determined by applying the weighted-average effective yields of individual fixed-rate borrowings and the weighted-average yields to reset of floating-rate notes.

Included in Capital Market Borrowings is medium-term debt. Medium-term debt includes bonds, floating-rate and fixed-rate notes, with an original term to maturity ranging from two to ten years.

The 2009 interest expense related to Capital Market Borrowings is $223 million (2008 – $302 million).

The carrying amount at 31 December 2009 of Capital Market Borrowings is $37 million lower (2008 – $438 million higher) than the contractual amount due at maturity. CMHC's liabilities are backed by the full faith and credit of the Government of Canada and there is no significant change in value that can be attributed to changes in credit risk.

Borrowings from the Government of Canada

The following table summarizes the carrying value and yield for Borrowings from the Government of Canada based on contractual repayments for borrowings made prior to 1993 and based on maturity date for all other borrowings.

(in millions of dollars)	2009 Borrowings Designated at Fair Value	2009 Yield[1]	2009 Other Borrowings	2009 Yield[1]	2008 Borrowings Designated at Fair Value	2008 Other Borrowings
2009	-	-	-	-	598	1,356
2010	651	0.16%	2,591	1.91%	-	1,363
2011	314	2.99%	2,021	1.85%	315	1,338
2012	831	3.14%	2,108	2.40%	840	1,537
2013	1,265	3.03%	27,383	3.28%	1,285	20,351
2014	790	2.14%	28,220	2.63%	25	200
2015-2019	626	3.54%	1,062	8.44%	448	1,031
Thereafter	-	-	1,991	9.53%	-	1,931
Total	4,477	2.54%	65,376	3.14%	3,511	29,107

[1] Represents the weighted-average yield, which is determined by applying the weighted-average effective yields of individual fixed-rate borrowings and the weighted-average yields to reset of floating-rate notes

The 2009 interest expense related to Borrowings from the Government of Canada - Designated at Fair Value is $101 million (2008 – $48 million) and $1,908 million (2008 – $538 million) for Borrowings from the Government of Canada - Other.

The carrying amount at 31 December 2009 of Borrowings from the Government of Canada - Designated at Fair Value is $17 million (2008 – $93 million) higher than the contractual amount due at maturity. CMHC's liabilities are backed by the full faith and credit of the Government of Canada and there is no significant change in value that can be attributed to changes in credit risk.

Borrowings from the Government of Canada - Designated at Fair Value are not issued at market value. On the day of exchange, these borrowings are adjusted to market value and the associated gains/losses are deferred and amortized over the term of the borrowings. These gains and losses are partially offset by the gains and losses arising on Direct Lending loans that are issued at non-market rates. At 31 December 2009, a net deferred gain of $34 million (2008 – $22 million) has been recorded in Accounts Payable and Other Liabilities and $5 million (2008 – $0.6 million) has been recorded in Net Unrealized Gains/Losses from Financial Instruments.

12. CAPITAL MANAGEMENT

For Capital Management purposes and as provided for in the CMHC Act and the NHA, CMHC considers its capital to be Retained Earnings, comprised of Earnings Set Aside for Capitalization, Unappropriated Retained Earnings and the Reserve Fund for Lending as well as the Contributed Capital.

CMHC's primary objective with respect to capital management is to ensure that it has adequate capital to deliver its mandate while remaining financially self-sustaining and also to follow prudent business practices and guidelines existing in the private sector as appropriate. CMHC capital management is included in its Corporate Plan which is approved annually by the Governor in Council.

There are no externally imposed minimal capital requirements on CMHC. Earnings Set Aside for Capitalization represent the portion of cumulative Net Income from the Insurance and Securitization Activities that has been set aside for capitalization purposes. The Earnings Set Aside for Capitalization of the Insurance Activities are consistent with mortgage insurance capitalization guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI) and the Earnings Set Aside for Capitalization of the Securitization Activities are based on regulatory and economic capital principles.

CMHC places all other retained earnings in its Reserve Fund for Lending. The components of this Reserve Fund are outlined in the following table. There is an externally imposed limit on each of the components. Should the limit be exceeded, CMHC would be required to pay the excess to the Government of Canada.

(in millions of dollars)	2009 Authorized Limit	2009 Balance 31 December	2008 Authorized Limit	2008 Balance 31 December
Reserve for New Financial Instruments Accounting Standards	115	35	115	109
Reserve for All Other Lending-Related Items	125	116	125	76
Reserve Fund for Lending	240	151	240	185

CMHC has managed its capital as approved in its 2009 Corporate Plan in accordance with the *CMHC Act* and the NHA. In 2009, CMHC began setting aside Net Income from the Securitization Activity for capitalization purposes. Other than this, there have been no changes in what is considered to be capital or the objectives of managing capital during the year.

13. HOUSING PROGRAMS

CMHC receives Parliamentary appropriations to fund the following payments, including operating costs, in support of housing programs.

(in millions of dollars)	2009	2008
Non-Profit Housing	603	624
Public Housing	553	550
Renovation and Retrofit Programs[1]	439	114
Affordable Housing Initiative[1]	312	98
Rent Supplement	154	158
On-Reserve Housing Programs[1] & [2]	129	410
Rural and Native Housing	117	126
Urban Native Housing Program	92	91
Co-operative Housing	79	80
Limited Dividend Program	11	11
Research and Information Transfer	7	8
Other	9	18
Total Housing Program Expenses	2,505	2,288
Operating Costs	108	103
Total Appropriations	2,613	2,391

(1) Includes expenditures under Canada's Economic Action Plan (CEAP)

(2) The 2008 Parliamentary appropriations for On-Reserve Housing Programs include a $300 million contribution from the Government of Canada to the First Nation Market Housing Fund (FNMHF). FNMHF was established on 31 March 2008. The Fund, which is governed by nine trustees and the Government of Canada, has a mandate to enable First Nations to gain easier access to private sector housing financing options. CMHC, under contract, manages the Fund's operations and is not exposed to the risks and rewards associated with the Fund. The $300 million contribution was transferred through CMHC's Parliamentary appropriations to facilitate the establishment of the Fund and CMHC irrevocably re-transferred the same amount to the Fund upon its creation.

Of the total amount spent on housing programs, $1,043 million (2008 – $1,055 million) was provided for programs transferred to Provinces/Territories under Social Housing Agreements (SHAs). These amounts are disclosed above based on the original allocation within the agreements which also provide that the Provinces/Territories may reallocate amounts among housing programs. This funding to the Provinces/Territories may become repayable to CMHC if the amounts are not used in accordance with the terms and conditions of the Social Housing Agreements.

Under the SHAs, the Province/Territory assumes CMHC's financial and other obligations with respect to these programs in exchange for a pre-determined annual funding. The accountability framework requires the Province/Territory to provide an audited Annual Statement of Funding and Expenditures and an Annual Program Performance Report.

Housing Program Expenses also include related party transactions between the Government of Canada and CMHC for the reimbursement of:

- Interest rate losses resulting from certain loans containing interest rate clauses lower than the interest cost on the related borrowings;
- Net operating losses on certain investments in housing programs and real estate properties; and
- Net default losses on certain loans and net disposal losses on certain investments in housing programs and real estate properties.

The following table summarizes the nature of these expenses reimbursed by the Government of Canada.

(in millions of dollars)	2009	2008
Interest Rate Losses	107	
Net Operating Losses	3	
Net Default and Disposal Losses	1	
Total	111	58

The total reimbursements for interest losses includes $57 million (2008 – nil) towards the losses incurred by the Corporation as a result of the prepayment and repricing activity.

The reimbursement for interest rate losses is also included in Interest Earned on Loans and Investments in Housing Programs. Net operating, default and disposal losses are recorded as Due from the Government of Canada and Housing Program Expenses on an accrual basis. The reimbursement of operating costs is shown in the Consolidated Statement of Income and Comprehensive Income as Parliamentary appropriations for Operating Expenses.

14. FINANCIAL INSTRUMENTS

Determination of Fair Value

All financial instruments are recognized initially at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Accrued interest is separately disclosed for all financial instruments.

Subsequent fair values are determined using the following fair value measurements. The fair value measurement hierarchy reflects the significance of the inputs used in making these measurements

Fair Value Hierarchy:

Level 1:
Financial assets quoted in active markets are measured based on the bid price of an identical asset. Financial liabilities quoted in active markets are measured based on the ask price of an identical liability.

Level 2:
Financial assets and liabilities not quoted in active markets that are measured in part or in whole based on discounted cash flow analysis making maximum use of observable inputs in the market.

Level 3:
Financial assets and liabilities not quoted in active markets that are measured based on discounted cash flow analysis where significant inputs are not based on observable data.

For all other financial instruments, the carrying value is assumed to approximate fair value due to the short-term nature.

The following table represents the fair value hierarchy in which fair value measurements are categorized for assets and liabilities recorded on the Balance Sheet. During the year, there were no significant transfers between Level 1 and Level 2.

	2009			
(in millions of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Cash and Cash Equivalents	2,653	403	-	3,056
Investment in NHA MBS:				
Designated at Fair Value	-	143,791	-	143,791
Investment Securities:				
Designated at Fair Value	1,180	-	93	1,273
Available for Sale	14,347	-	-	14,347
Securities Purchased Under Resale Agreements	32,243	-	-	32,243
Loans:				
Designated at Fair Value	-	7,533	-	7,533
Derivatives	-	4,047	-	4,047
Assets not recorded at Fair Value	-	-	-	66,531
Total Assets	50,423	155,774	93	272,821
Liabilities				
Derivatives	-	996	-	996
Borrowings:				
Canada Mortgage Bonds	177,763	-	-	177,763
Capital Market Borrowings	4,438	-	-	4,438
Borrowings from the Government of Canada:				
Designated at Fair Value	-	4,477	-	4,477
Liabilities and Equity not recorded at Fair Value	-	-	-	85,147
Total Liabilities and Equity	182,201	5,473	-	272,821

The following table presents the change in the fair value measurement of Level 3 Investment Securities.

(in millions of dollars)	2009
Opening Balance	165
Total unrealized losses in Net Income [1]	(7)
Total realized losses in Net Income [2]	(5)
Cash receipts on Settlements	(60)
Closing Balance	**93**
Gains/(Losses) for Positions Held at 31 December [1]	(7)

[1] Included in Net Unrealized Gains (Losses) from Financial Instrument
[2] Included in Net Realized Gains (Losses) from Financial Instruments

CMHC's valuation for Level 3 Investment Securities was based on its assessment of the prevailing conditions at 31 December 2009, which may change materially in subsequent periods. The most significant factor which may have an impact on the future value of these assets is the discount rates. A 100 bps decrease (increase) in the discount factor would result in a $7 million increase ($6 million decrease) in Income Before Income Taxes.

Financial Instruments Carried at Amortized Cost

Using the valuation methods described above, the following table presents the fair values of financial instruments carried at amortized cost, except where amortized cost is a reasonable approximation of fair value.

	2009		2008	
(in millions of dollars)	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Investment in NHA MBS – Held to Maturity [2]	59,763	59,000	25,625	24,767
Investment Securities – Held to Maturity [1]	54	54	51	51
Loans – Other [2]	4,139	3,255	4,475	3,381
Loans – Investments in Housing Programs [2]	1,531	939	1,698	1,007
Borrowings from the Government of Canada – Other [2]	68,397	65,376	32,829	29,107

[1] Fair value determined based on Level 1 Criteria
[2] Fair value determined based on Level 2 Criteria

Classification of Cash and Cash Equivalents and Securities Purchased Under Resale Agreements

The following table presents a breakdown by Financial Instrument classification.

	2009				2008
(in millions of dollars)	Designated at Fair Value	Available for Sale	Held to Maturity	Total	Total
Cash and Cash Equivalents	2,486	570	1,186	4,242	
Securities Purchased Under Resale Agreements	32,243	-	127	32,370	19,415

Gains and Losses from Financial Instruments

The unrealized gains and losses arising from changes in fair value related to financial instruments required to be classified as HFT and designated at fair value are presented in the following table. All derivatives are classified as HFT and have not been designated in hedge relationships for accounting purposes. In addition, Securities Sold But Not Yet Purchased are required to be classified as HFT. All other financial assets and liabilities in the following table have been designated at fair value under the fair value option.

(in millions of dollars)	2009	2008
Required to be Held for Trading		
Derivatives	(1,231)	4,999
Securities Sold But Not Yet Purchased	-	30
Total Required to be Held for Trading	(1,231)	5,029
Designated at Fair Value		
Cash Equivalent	(1)	1
Investment in NHA MBS – Designated at Fair Value	(2,041)	4,509
Investment Securities – Designated at Fair Value	(14)	16
Securities Purchased Under Resale Agreements	1	(1)
Loans – Designated at Fair Value	(192)	399
Canada Mortgage Bonds	2,883	(7,733)
Capital Market Borrowings	476	(1,094)
Borrowings from the Government of Canada – Designated at Fair Value	66	(166)
Total Designated at Fair Value	1,178	(4,069)
Total Net Unrealized Gains (Losses) from Financial Instruments	(53)	960

There has been no change in the fair value of Loans - Designated at Fair Value as a result of changes in credit risk. These loans are assured the full collection of principal and interest through a third-party or are underwritten by the Insurance Activity as detailed in Note 5.

The realized gains and losses related to financial instruments are presented in the table below.

(in millions of dollars)	2009	2008
Required to be Held for Trading	11	(75)
Designated at Fair Value	(1)	(23)
Held to Maturity	(2)	(18)
Available for Sale	104	30
Total Net Realized Gains (Losses) from Financial Instruments	112	(86)

Interest Income and Interest Expense

The following table outlines the total interest income and expense calculated using the effective interest method for financial instruments.

	2009		2008	
(in millions of dollars)	Income	Expense	Income	Expense
Available for Sale financial assets	464	-	411	
Held to Maturity financial assets	1	-	8	
Investment in NHA MBS – Held to Maturity	1,369	-		
Securities Purchased Under Resale Agreements	-	-	2	
Loans – Other	280	-	232	
Loans – Investments in Housing Programs	100	-		
Securities Sold Under Repurchase Agreements	-	1	-	8
Borrowings from the Government of Canada – Other	-	1,903	-	53.
Total Financial Instruments not designated at fair value	2,214	1,904	899	54
Total Financial Instruments designated at fair value	6,305	6,002	5,890	5,734
Total Dividends	68	-		
Total Interest Income/Expense	8,587	7,906	6,855	6,274

15. MARKET RISK

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The investment portfolios for the Insurance and Securitization Activities are managed taking into consideration the Strategic Asset Allocation analysis and review process which assesses alternative risk/n[illegible]nvestment strategies and limiting price sensitivity to interest rate changes relative to benchmark indices and by appropriate asset diversification. Interest rate risk associated with the Lending Activity is managed through asset and liability matching, use of swap derivatives and capital market strategies.

Some of CMHC's Loans and Investments in Housing Prog[illegible] As CMHC does not have the right to prepay its Bo[illegible] it is exposed to interest rate risk.

Currency Risk

Currency risk is the risk that the fa[illegible] of changes in foreign exchange rates.

All currency exposure arising from foreign denominated debt issuance is economically hedged in accordance with Corporate policy. As part of its Strategic Asset Allocation policy, the Corporation has assumed currenc[illegible] exposure to further its Insurance and Securitization investment portfolio diversification. A 1% shift in foreig[illegible]

exchange rates on assets classified as AFS would have a ± $14 million (2008 – ±$11 million) impact on the Insurance and Securitization investment portfolios and would be recorded in Other Comprehensive Income.

Other Price Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. CMHC is exposed to other price risk through fluctuations in prices of equity investments. The majority of investment assets are actively managed against selected benchmarks derived from a strategic asset allocation. CMHC limits its exposure by using tolerance ranges around the benchmarks for various diversification and exposure measures.

Sensitivity Analysis

Value at Risk: Market risk for AFS financial assets is evaluated through the use of a Value at Risk (VaR) model. VaR is a statistical estimation that measures the maximum potential market loss of a portfolio over a specified holding period with a given level of confidence. The calculation of VaR is based on the Delta-normal method which may underestimate the occurrence of large losses because of its reliance on a normal distribution. The following table shows the VaR for the Insurance and Securitization investment portfolios as at 31 December, with a 95% confidence level over a two-week holding period. The analysis was based on one-year historical data of prices, volatilities and correlations of the various bond and equity markets.

Interest Rate Sensitivity: The financial instruments Designated at Fair Value and classified as HFT in the Lending Activity portfolio are exposed to interest rate movements. For Loans – Designated at Fair Value, the impacts of interest rate shifts on the portfolio are not symmetrical. A -200 bps interest rate shift would result in an increase in value of $418 million (2008 – $486 million) whereas a +200 bps interest rate shift would result in a decrease in value of $381 million (2008 – $441 million). For all remaining loans, a -200 bps interest rate shift would result in an increase in value of $818 million (2008 – $953 million) whereas a +200 bps interest rate shift would result in a decrease in value of $655 million (2008 - $756 million). The following table shows the maximum exposure of the Lending Activity portfolio's net interest margin to interest rate movements with a 95% confidence over a one year period as at 31 December. The maximum exposure is limited by CMHC policy to $1.5 million.

The following table shows the VaR and Maximum Exposure estimates and their related financial statement impact.

	2009		2008	
(in millions of dollars)	Net Income	Other Comprehensive Income	Net Income	Other Comprehensive Income
Value at Risk	n/a	231	n/a	227
Maximum Exposure	0.1	n/a	0.2	n/a

Insured Mortgage Purchase Program (IMPP) Risks

IMPP is exposed to both interest rate risk and prepayment/reinvestment risk. Prepayment/reinvestment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term and these prepayments must be reinvested immediately.

To mitigate these risks, CMHC enters into interest rate swap agreements with approved financial institutions. Under these agreements, both interest rate and prepayment/reinvestment risks are transferred to swap counterparties. These swap counterparties manage reinvestment assets in accordance with pre-established investment guidelines. CMHC pays all interest received from the underlying assets to the swap counterparties and the swap counterparties pay CMHC an amount equal to the Borrowings from the Government of Canada coupon payments. As a result of these interest rate swap agreements, changes in interest rates or prepayments/reinvestments have no impact on the Statement of Income and Comprehensive Income.

Canada Housing Trust (CHT) Risks

CHT is exposed to both interest rate and prepayment/reinvestment risk. Prepayment/reinvestment risk is the risk that NHA MBS may experience varying degrees of prepayment throughout the term and these prepayments must be reinvested immediately.

To mitigate these risks, CHT enters into interest rate swap agreements with approved financial institutions. Under these agreements, both interest rate and prepayment/reinvestment risks are transferred to swap counterparties. These swap counterparties manage reinvestment assets in accordance with pre-established investment guidelines. CHT pays all interest received from the underlying assets to the swap counterparties and the swap counterparties pay CHT an amount equal to the CMB coupon payments. As a result of these interest rate swap agreements, changes in interest rates or prepayments/reinvestments have no impact on the Statement of Income and Comprehensive Income.

16. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. CMHC is exposed to credit risk from various sources, including from its investment, lending, derivative, advances to mortgage insured social housing projects in difficulty and mortgage receivable transactions.

Credit risk associated with the Corporation's investments and derivatives is managed through the implementation of policies which include minimum counterparty credit ratings and investment portfolio diversification limits by issuer, credit rating and by industry sector, and through the use of appropriate legal agreements.

Concentration risk is the amount of credit risk the Corporation is exposed to in relation to specific counterparty and/or industry sectors. CMHC risk management policies address concentration risk from activities where the amount of potential loss can be measured (direct investments, lending and derivative transactions credit risk) at both the individual counterparty level and at the industry sector level and by credit rating. The Corporation's

largest concentration of credit risk by individual counterparty is to the Government of Canada (2009 – $5,319 million, 2008 – $3,067 million), and the largest concentration of credit risk by industry sector is to the financial sector (2009 – $3,675 million, 2008 – $3,182 million).

Credit Quality

The following table presents, as at 31 December, the credit quality of the Corporation's Cash Equivalents and Investment Securities based on an internal credit rating system (excluding those related to the IMPP and CHT).

	2009			2008		
(in millions of dollars)	AAA	AA- to AA+	Lower than AA-	AAA	AA- to AA+	Lower than AA-
Cash Equivalents	665	191	1	239	120	3
Investment Securities:						
Designated at Fair Value	208	577	93	299	507	180
Available for Sale	4,674	3,351	6,322	5,301	3,116	5,125
Held to Maturity	-	-	-	-	-	51

Maximum Exposure to Credit Risk

Investment Assets: CMHC's maximum exposure to credit risk is the carrying amount of investment assets held on the Consolidated Balance Sheet.

Securities Purchased Under Resale Agreements: By their nature these balances have a low credit risk as they are largely secured by obtaining collateral from counterparties. Collateral agreements provide for the posting of collateral by the counterparty when CMHC's exposure to that entity exceeds a certain ratings-based threshold. Securities held as eligible collateral include debt obligations issued by or guaranteed by the Government of Canada, including Crown corporations and CHT. Collateral held to offset mark-to-market exposures from these transactions should not be used for any other purpose than to offset such exposure. In the event of counterparty default, CMHC has the right to liquidate collateral held. The fair value of collateral held by CMHC as at 31 December 2009 totalled $0.4 million (2008 – $6 million).

Derivatives: CMHC limits its credit risk associated with derivative transacting by dealing with swap counterparties whose credit ratings are in accordance with its Funding, Investment and Risk Management Policies, which are approved by the Board of Directors and are in accordance with Department of Finance Guidelines; through the use of International Swaps Derivatives Association (ISDA) master netting agreements for derivatives which have been entered into with all counterparties; and where appropriate, through the use of ratings-based collateral thresholds in the Credit Support Annexes. The master netting agreements give CMHC a legally enforceable right to reduce derivative exposure through the provision of a single net settlement of all financial instruments covered by the agreement with the same counterparty in the event of default.

The following table presents the Corporation's credit exposure of derivatives by term to maturity (excluding those related to the IMPP).

(in millions of dollars)	Replacement value [1] Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Potential Future Credit Exposure [2]	Total Credit Exposure 2009	2008
Interest Rate Swaps	15	55	24	51	25	170	
Cross Currency Interest Rate Swaps	-	-	-	-	23	23	
Total	15	55	24	51	48	193	

(1) Represents the total current fair value including accrued interest of all outstanding contracts with a positive fair value, before
netting agreements.

(2) Represents an add-on that is an estimate of the potential change in the market value of the tra
principal of the contracts by applying factors consistent with guidelines issued by the Offic

Allowance for Credit Losses

In the event of mortgage default, CMHC may take an assignment of the insured mortgage and pay the insured lender the loan balance, rather than proceed with the acquisition of the property through title transfer claim. In addition, in an effort to minimize future insurance claims resulting from insured mortgages provided to market or assisted housing rental projects, CMHC may make advances to the project in order to help it return to a state where the borrower can manage its mortgage obligations. A loan/advance is classified as impaired when there is objective evidence of impairment as a result of one or more events that have had a negative impact on the estimated cash flows of the loan/advance. The allowance for credit losses is established to provide for estimated amounts that may not be recovered. Factors that are considered in assessing the estimated realizeable amount include, but are not limited to, underlying asset valuation, and any changes in market and economic outlook. The allowance for credit losses is included as a reduction to Accounts Receivable and Other Assets and any change in the allowance is included in Net Claims. At 31 December 2009, the allowance was $141 million (2008 – $109 million) relating to financial assets of $179 million (2008 – $180 million). The following table shows the changes in the allowance for credit losses.

(in millions of dollars)	2009	2008
Balance, Beginning of Year	109	
Recoveries	(4)	
Write-offs	(4)	
Provision for Credit Losses	40	
Balance, End of Year	141	

Insured Mortgage Purchase Program (IMPP) Risks

CMHC is exposed to credit-related risk in the event of default of swap counterparties. This risk is mitigated by transacting with highly rated swap counterparties and
The fair value of collateral held by CMHC as at 31 December 2009 was $343 million (2008 – nil). The IMPP-related investment instruments are AAA-rated by DBRS.

Derivatives: CMHC enters into swap agreements to manage the risk that the interest earned on its investments may not be sufficient to meet its repayment obligations on Borrowings from the Government of Canada related to the IMPP. With these swaps, all interest payments to CMHC, net of its expenses, are paid to the swap counterparties from which CMHC receives payments equal to the interest it is required to pay on its IMPP-related borrowings.

The following table presents the Corporation's credit exposure of derivatives by term to maturity for the IMPP.

	Replacement value [1]				Potential Future Credit Exposure [2]	Total Credit Exposure	
(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		2009	2008
Interest Rate Swaps	-	-	518	-	162	**680**	783

[1] Represents the total current fair value including accrued interest of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreements.

[2] Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity which is calculated in relation to the notional principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of Financial Institutions.

Investments: Permitted investments are limited to high quality assets, as follows: cash, Government of Canada obligations, Canada Mortgage Bonds, NHA MBS and eligible repurchase agreements of Government of Canada securities, Canada Mortgage Bonds and NHA MBS. Limits to approved sale under repurchase agreement counterparties are determined as a function of credit rating and reported tier 1 capital.

Canada Housing Trust (CHT) Risks

CHT is exposed to credit-related risk in the event of default or credit rating downgrade of swap counterparties and through its investments. CHT only holds investment instruments rated R-1 high or AAA by at least two rating agencies.

Derivatives: CHT enters into swap agreements to manage the risk that the interest earned on its investments may not be sufficient to meet its CMB coupon obligations. With these swaps, all interest payments to CHT, net of its expenses, are paid to the swap counterparties from which CHT receives payments equal to the interest it is required to pay on the CMB. In accordance with the requirements of CMHC as guarantor, CHT mitigates this risk by retaining the interest portion of mortgage cash flow payments for counterparties rated below AA-. In addition, ISDA master netting agreements are employed for derivatives, including the requirement for ratings-based collateral thresholds.

The following table presents CHT's credit exposure of derivatives by term to maturity.

	Replacement value [1]				Potential Future Credit Exposure [2]	Total Credit Exposure	
(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		2009	2008
Interest Rate Swaps	323	2,147	412	(168)	740	**3,454**	4,283

[1] Represents the total current fair value including accrued interest of all outstanding contracts with a positive fair value, before factoring in the impact of master netting agreements.

[2] Represents an add-on that is an estimate of the potential change in the market value of the transaction up to maturity which is calculated in relation to the notional principal of the contracts by applying factors consistent with guidelines issued by the Office of the Superintendent of Financial Institutions.

Investments: Trust permitted investments are limited to high quality assets, as follows: NHA MBS, Government of Canada obligations, cash, asset-backed obligations backed by residential mortgages rated R-1 (High) and eligible repurchase agreements of Government of Canada securities, NHA MBS and bank sponsored ABCP. Limits to approved sale under repurchase agreement counterparties are determined as a function of credit rating and reported tier 1 capital.

CHT is assured full collection of principal and interest on its Investments in NHA MBS through CMHC's guarantee of timely payment of principal and interest. The fair value of collateral held by CHT as at 31 December 2009 totalled $232 million (2008 – $70 million).

17. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation has a liquidity risk policy which includes appropriate limits to ensure sufficient resources to meet current and projected cash requirements. Starting in April 2008, CMHC accessed the Crown Borrowing Program to provide liquidity to meet cash requirements on a daily basis. The Corporation's commercial paper program, the primary source of liquidity until April, remains available to meet cash requirements on a daily basis, subject to approval by the Minister of Finance on a transaction by transaction basis. Further sources of liquidity associated with this policy include overdraft facilities, lines of credits and cash and short-term investments in marketable securities.

CMHC also mitigates liquidity risk through the use of ISDA master netting agreements reducing the amount of cash required to satisfy derivative obligations.

The following table presents the undiscounted contractual cash flows payable by the Corporation, including accrued interest, under financial liabilities by remaining contractual maturities.

(in millions of dollars)	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	2009	2008
Securities Sold Under Repurchase Agreements	51	-	-	-	-	51	135
Canada Mortgage Bonds						195,265	
Capital Market Borrowings	-	36	1,464	1,893	1,466	**4,859**	6,507
Borrowings from the Government of Canada	1,262	782	3,351	69,556	6,030	**80,981**	41,383
Derivatives (net)	601	(78)	(229)	(4,482)	(1,251)	**(5,439)**	(6,249)
Total	1,914	11,516	19,235	224,505	18,547	**275,717**	201,843

Commitments related to Loans and Investments in Housing Programs are outlined in Note 21.

Lines of Credit

At 31 December 2009, CMHC had $100 million (2008 – $100 million) of overnight overdraft facility available with its banker that had not been drawn. In addition, CMHC had $450 million (2008 – $450 million) in unused, uncommitted lines of credit. The lines of credit provided for loans based on Canadian prime rate and have no expiry date. During the year, CMHC has not drawn from these lines of credit.

18. EMPLOYEE FUTURE BENEFITS

CMHC provides a defined benefit pension plan, a supplemental pension plan and other post-employment benefits.

The accrued benefit asset for the defined benefit pension plan is included in Accounts Receivable and Other Assets. The total accrued benefit liability for the supplemental pension plan and for the other post-employment benefits is included in Accounts Payable and Other Liabilities. The net benefit plan cost recognized is included in Operating Expenses.

Total cash payments for employee future benefits were $19 million in 2009 (2008 – $6 million). They include contributions by CMHC to its defined benefit pension plan and payments for the unfunded supplemental pension plan. Also therein are disbursements for other post-employment benefits, which consist of payments to a third-party service provider on behalf of retired employees and payments made directly to employees, their beneficiaries or estates.

Information about the employee future benefits is as follows:

	Pension Plans		Other Post-Employment Benefits	
(in millions of dollars)	**2009**	**2008**	**2009**	**2008**
Accrued Benefit Obligation				
Balance, Beginning of Year	**1,139**	1,248	**131**	148
Current Service Cost	**21**	25	**3**	4
Employees' Contributions	**7**	6	**-**	-
Interest Cost	**71**	66	**8**	8
Benefits Paid	**(60)**	(56)	**(4)**	(5)
Actuarial Loss (Gain)	**70**	(150)	**15**	(24)
Plan Amendments	**-**	-	**-**	-
Balance, End of Year	**1,248**	1,139	**153**	131
Fair Value of Plan Assets				
Balance, Beginning of Year	**1,005**	1,293	**-**	-
Actual Return on Plan Assets	**162**	(239)	**-**	-
Employer's Contributions	**15**	1	**4**	5
Employees' Contributions	**7**	6	**-**	-
Benefits Paid	**(60)**	(56)	**(4)**	(5)
Balance, End of Year	**1,129**	1,005	**-**	-
Funded Status - Plan Surplus (Deficit)	**(119)**	(134)	**(153)**	(131)
Unamortized Net Actuarial Loss	**224**	263	**16**	1
Unamortized Past Service Costs	**18**	27	**14**	17
Unamortized Transitional Obligation (Asset)	**(29)**	(59)	**14**	17
Accrued Benefit Asset (Liability)	**94**	97	**(109)**	(96)

Included in the above accrued benefit obligation and fair value of plan assets at 31 December 2009 are the following amounts in respect of plans that are not fully funded.

(in millions of dollars)	Pension Plans		Other Post-Employment Benefits	
	2009	2008	2009	2008
Accrued Benefit Obligation	1,248	1,139	153	
Fair Value of Plan Assets	1,129	1,005	-	
Funded Status - Plan Deficit	(119)	(134)	(153)	

The pension fund information contained in the financial statement and notes thereto are based an extrapolation of the actuarial valuation as at 31 December, 2007. The Corporation is currently in the process of completing a Pension Fund actuarial valuation as at December 31, 2009 which will be incorporated into the Corporation's 2010 financial results.

The plan assets and the accrued benefit obligation were measured for accounting purposes as at 31 December 2009. In performing this measurement, the following assumptions were adopted.

	2009	2008
Accrued Benefit Obligation:		
Discount Rate	5.75%	6.25
Rate of Compensation Increase	3.00%	
Benefit Costs:		
Discount Rate	6.25%	
Rate of Compensation Increase	3.00%	
Long-Term Rate of Return on Plan Assets	6.80%	

An 8.6% (2008 – 9.1%) increase in health care costs was assumed for 2009, with 0.2% (2008 - 0.4%) average decreases per year thereafter to an ultimate trend rate of 4.5% which is expected to be achieved by 2029.

The following table shows the impact of changes in the assumptions.

(in millions of dollars)	Increase (Decrease) in Accrued Benefit Obligation	Increase (Decrease) in Net Benefit Costs
0.5% Increase/Decrease in Discount Rate		
0.5% Increase/Decrease in Rate of Compensation Increase		
0.5% Increase/Decrease in Long-Term Rate of Return on Plan Assets		
1.0% Increase/Decrease in Health Care Cost Trend Rates		

CMHC's annual net benefit plan costs are as follows:

(in millions of dollars)	Pension Plans 2009	Pension Plans 2008	Other Post-Employment Benefits 2009	Other Post-Employment Benefits 2008
Costs Incurred during the Year				
Current Service Cost, Net of Employees' Contributions	21	25	3	4
Interest Cost	71	66	8	8
Actual Return on Plan Assets (Gain)/Loss	(162)	239	-	-
Actuarial (Gain) Loss on Accrued Benefit Obligation	70	(150)	15	(24)
Plan Amendments	-	-	-	-
Total Costs before Adjustments	-	180	26	(12)
Adjustments to Recognize the Long-term Nature of Employee Future Benefit Costs				
Difference between Expected and Actual Return on Plan Assets	95	(322)	-	-
Difference between Actuarial (Gain) Loss Recognized and Actual Actuarial (Gain) Loss on Accrued Benefit Obligation	(55)	150	(15)	24
Amortization of Past Service Costs	9	9	2	-
Amortization of the Transitional Obligation (Asset)	(30)	(30)	4	4
Plan Amendments	-	-	-	2
Total Adjustments	19	(193)	(9)	30
Net Benefit Plan Cost (Revenue) Recognized	19	(13)	17	18

Information on the defined benefit pension plan assets is as follows:

Category of Plan Assets	Percentage of Fair Value of Total Plan Assets 2009	Percentage of Fair Value of Total Plan Assets 2008
Short-term Investments[1]	1.37%	1.92%
Bonds and Debentures[2]	22.00%	28.32%
Equities	63.45%	55.46%
Real Return Securities[3]	2.35%	2.35%
Real Estate	10.83%	11.95%
Total	100.00%	100.00%

(1) Includes $13 million (2008 – $18 million) in its related parties
(2) Includes $41 million (2008 – $51 million) in CMHC and $49 million (2008 – $18 million) in its related parties
(3) Includes $23 million (2008 – $21 million) in its related parties

The interest paid by CMHC to the pension plan amounted to $1 million in 2009 (2008 – $2 million). In 2009, there was a net charge in the amount of $4 million (2008 – $3 million) from CMHC to the pension plans for administrative services.

19. SEGMENTED INFORMATION

As described in Note 1, the consolidated financial statements include the accounts of CMHC's four activities (Insurance, Securitization, Housing Programs and Lending Activity), each of which provides different programs in support of CMHC's objectives, and the Canada Housing Trust. The financial results of each activity are determined using the accounting policies described in Note 2. The Lending Activity includes certain corporate items that are not allocated to each activity. The Housing Program Activity includes reimbursements to the Lending Activity as described in Note 13. These reimbursements are not eliminated in the following table.

(in millions of dollars)	Insurance 2009	Insurance 2008	Securitization 2009	Securitization 2008	Housing Programs 2009	Housing Programs 2008	Lending 2009	Lending 2008	Canada Housing Trust 2009	Canada Housing Trust 2008	Eliminations 2009	Eliminations 2008	Total 2009	Total 2008
REVENUES														
nterest Income from NHA MBS	-	-	1,523	139	-	-	-	-	5,637	4,599	-	-	7,160	
Premiums and Fees	1,643	1,423	161	99	-	-	-	-	-	-	-	-	1,804	
nterest Earned on Loans and Investments in Housing Programs	-	-	-	-	-	-	723	717	-	-	-	-	723	
ncome from nvestment Securities	562	533	38	24	-	-	14	[illegible]	56	[illegible]	[illegible]	[illegible]	704	
Net Realized Gains (Losses) from Financial nstruments	109	(18)	5	-	-	-	(2)	(68)	-	-	-	-	112	
Net Unrealized Gains (Losses) from Financial nstruments	(3)	-	(109)	733	-	-	(77)	145	212	-	(76)	82	(53)	
Parliamentary Appropriations and Other Income	5	26	19	-	2,613	2,391	(3)	(1)	192	163	(112)	(92)	2,714	
	2,316	1,964	1,637	995	2,613	2,391	657	862	6,197	5,602	(256)	(76)	13,164	
EXPENSES														
Interest Expense	1	8	1,529	139	-	-	658	761	5,786	5,432	(68)	(66)	7,906	
Operating Expenses	195	182	7	4	108	103	19	18	199	170	(112)	(92)	416	
Housing Programs and Net Claims	1,112	372	-	-	2,505	2,288	-	-	-	-	-	-	3,617	
	1,308	562	1,536	143	2,613	2,391	677	779	5,985	5,602	(180)	(158)	11,939	
Income Taxes	(266)	(403)	(32)	(219)	-	-	4	(9)	-	-	-	-	(294)	
NET INCOME	742	999	69	633	-	-	(16)	64	212	-	(76)	82	931	
ASSETS														
Investment in NHA MBS														
Designated at Fair Value	-	-	-	-	-	-	-	-	143,791	23,737	-	-	143,791	
Held to Maturity	-	-	59,000	24,767	-	-	-	-	-	-	-	-	59,000	
Investment Securities														
Designated at Fair Value	52	-	1	-	-	-	1,029	986	395	842	(204)	-	1,273	
Available for Sale	15,249	12,857	957	685	-	-	-	-	-	-	(1,859)	(1,866)	14,347	
Held to Maturity	-	51	1,004	94	-	-	-	-	-	-	(950)	(94)	54	
Loans														
Designated at Fair Value	-	-	-	-	-	-	7,533	7,952	-	-	-	-	7,533	
Other	-	-	-	-	-	-	3,255	3,381	-	-	-	-	3,255	
Investments in Housing Programs	-	-	-	-	-	-	939	1,007	-	-	-	-	939	
Other Assets	1,029	822	2,271	939	-	-	1,477	1,207	38,020	26,097	(168)	4	42,629	
	16,330	13,730	63,233	26,485	-	-	14,233	14,532	182,206	50,669	(3,181)	(1,956)	272,821	
LIABILITIES														
Unearned Premiums and Fees	6,675	5,848	502	373	-	-	-	-	-	-	-	-	7,177	
Borrowings														
Canada Mortgage Bonds	-	-	-	-	-	-	-	-	180,881	49,672	(3,118)	(1,957)	177,763	
[illegible]	-	-	-	-	-	-	4,448	5,975	-	-	(10)	(3)	4,438	
[illegible] nada	-	-	61,260	24,872	-	-	8,593	7,746	-	-	-	-	69,853	
her Liabilities	1,495	878	511	316	-	-	1,016	598	1,359	997	(54)	28	4,327	
	8,170	6,726	62,273	25,561	-	-	14,057	14,323	182,240	50,669	(3,182)	(1,988)	263,558	
EQUITY OF CANADA	8,160	7,004	960	924			176	209	(34)		1	32	9,263	

20. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. CMHC enters into transactions with certain of these entities in the normal course of business. These transactions are recorded at the exchange amount which is the amount agreed to by the related parties. All material related party transactions are either disclosed below or in relevant notes.

a) The following table summarizes income earned and receivable as well as the total amount invested in instruments issued or guaranteed by the Government of Canada.

(In millions of dollars)	2009	2008
Cash Equivalents	3,024	1,735
Investment Income – Cash Equivalents	8	56
Interest Receivable – Cash Equivalents	-	3
Investment Securities	6,248	3,570
Investment Income – Investment Securities	118	124
Interest Receivable – Investment Securities	17	20

b) CMHC pays the Government of Canada fees in recognition of the government's financial backing of the Insurance and Securitization Activities. The fees, which are recorded as a reduction of Other Income, amount to $9 million (2008 – $7 million) for Securitization and nil (2008 – nil) for the Insurance Activity. The fee for the Insurance Activity is nil because CMHC's Earnings Set Aside for Capitalization equal 100% of its target capital level calculated in accordance with guidelines set out by OSFI.

21. COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to $370 million at 31 December 2009 (2008 – $206 million) and are normally advanced within a two-year period.

b) Commitments outstanding for advances to mortgage insured assisted housing projects in financial difficulty amounted to $80 million at 31 December 2009 (2008 – $31 million) and are normally advanced within a ten-year period. Advances in the amount of $75 million are expected to be made over the next five years and the remainder to be advanced beyond five years.

c) Total remaining contractual financial obligations for Housing Programs extend for periods up to 30 years (2008 – 31 years).

Estimated obligations are as follows:

(in millions of dollars)	2010	2011	2012	2013	2014	2015 and Thereafter
	2,332	1,657	1,633	1,6[illegible]	[illegible]	[illegible]

d) In addition to the lines of credit disclosed in Note 17, CMHC has a $70 million (2008 – $63 million) letter of credit outstanding.

e) There are legal claims of $9 million (2008 – $9 million) against CMHC. Due to the uncertainty of the outcome of these claims, no provision for loss has been recorded.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2009 financial statement presentation.



Other Disclosures and Information

- Glossary
- Definition of select CMHC Performance Measures
- CMHC Board of Directors – Biographies
- CMHC Management
- CMHC Offices

Glossary

FINANCIAL TERMS

Commercial paper: A type of corporate short-term debt with a term to maturity of up to one year.

Delayed certificate inventory (DCI): A system whereby securities ownership and transfer records are maintained in non-certificated registry form by the transfer agent. The owner of the security receives an Ownership Statement (receipt) which reports their ownership position. Should the owner require a certificate, a request can be made to the transfer agent for it to be issued and the security will then be removed from DCI.

Dynamic Financial Analysis (DFA): A systematic and holistic approach to financial modeling and sensitivity analysis for assets and liabilities that projects financial results under a variety of possible scenarios, showing how outcomes might be affected by changing business and economic conditions.

Hedging: A risk management strategy used to manage interest rate or foreign exchange exposure arising from the normal course of business operations.

Low ratio loans: Mortgage loans which are less than 80 per cent of the value of the property and which do not have to be insured under the *Bank Act*.

Securitization: The process of converting loans or other assets into financial securities which are sold into the capital markets, providing investors with an interest in the pool of loans or assets underlying the security.

Swap: A form of derivative, an interest rate swap is a contractual agreement between two parties to exchange a series of cash flows, generally exchanging fixed-rate and floating rate interest payments based on a notional principal amount in a single currency. In the case of a currency swap, principal amounts and fixed and floating rate interest payments are exchanged in different currencies. Swaps are generally used to reduce or eliminate interest rate risk or foreign exchange risk.

CMHC TERMS

Affordable Housing Initiative (AHI): Under the Affordable Housing Initiative, the federal government through CMHC provides funding to increase the supply of affordable housing off reserve, in partnership with provinces and territories. Provinces and territories design the housing programs which must meet national criteria.

Canada Housing Trust: The CHT is a legal entity at arm's length to CMHC. CHT acquires interests in eligible insured housing loans, such as *National Housing Act* Mortgage-Backed Securities. The CHT also purchases highly-rated investments, undertakes certain related financial hedging activities and issues Canada Mortgage Bonds (CMBs). CMBs are guaranteed by CMHC. CMHC also acts as the financial services advisor to the CHT, determining market demand for bond issuance, and engaging an underwriting syndicate to underwrite bond issues. CMHC receives a fee from CHT for its services as guarantor and financial services advisor. The day-to-day activities of the CHT are administered through a separate corporate entity serving as the trust administrator. As required under Accounting Guidelines 15 of Canada's Accounting Standards Board, CHT's financial results are consolidated with CMHC's financial statements because CHT is considered a variable interest entity.

Canada Mortgage Bonds (CMB): Bullet maturity bonds that are fixed-rate with a semi-annual coupon and floating rate note with a quarterly coupon that are issued by the Canada Housing Trust (CHT).

CMHC Affordable Housing Centre: CMHC's centre of excellence for information, guidance and other tools to facilitate the production of affordable housing by non-profit organizations, private sector proponents and others.

emili: An online automated mortgage insurance risk and approval system developed by CMHC. It provides virtually instantaneous assessment of mortgage loan insurance applications.

EQuilibrium™ Sustainable Housing Demonstration Initiative: Goals of CMHC's EQuilibrium™ Sustainable Housing Demonstration Initiative:

- to promote low environmental impact healthy housing across Canada;
- to enhance the capacity of Canada's home builders, developers, architects and engineers to design and build EQuilibrium™ homes and communities across the country;
- to educate consumers on the benefits of owning an EQuilibrium™ home and achieve market acceptance of EQuilibrium™ homes and sustainable communities; and
- to enhance Canada's domestic and international leadership and business opportunities in sustainable housing design, construction services and technologies.

EQuilibrium™ Communities Initiative: Goals of CMHC's EQuilibrium™ Communities Initiative:

- to accelerate sustainable community planning and development in Canada by demonstrating implementation methodologies and by facilitating improvements to performance levels; and
- to showcase how sustainable communities offer opportunities to achieve these improved levels of performance by integrating land use, housing, transportation and energy efficiency.

First Nations Market Housing Fund (FNMHF): The FNMHF, an independent trust, is overseen by nine trustees appointed by the Minister for CMHC and the Minister of Indian Affairs and Northern Development. In 2008, the Fund engaged CMHC to administer its operations for its initial five years. CMHC, on behalf of the Government of Canada, contributed $300 million to the Fund under certain terms and conditions. The Fund operates as a credit enhancement facility for housing loans on First Nation reserves, as well as supports First Nation capacity development. The financial results of the FNMHF are not consolidated with CMHC's financial statements.

Granville Island: Granville Island is a cultural, recreational and commercial development in the heart of Vancouver owned by the Government of Canada. CMHC receives a fee to manage and administer Granville Island on behalf of the Government of Canada. Granville Island's finances are not consolidated with CMHC's financial statements.

Insured Mortgage Purchase Program (IMPP): In October 2008, as a measure to maintain the availability of longer-term credit in Canada, the Government of Canada announced it would purchase $25 billion in *National Housing Act* Mortgage-Based Securities (NHA MBS) from Canadian financial institutions through a competitive auction process to be managed by CMHC. Since the initial announcement, the potential size of the program was increased to $125 billion. The government committed to maintaining the availability of IMPP until the end of March 2010.

Municipal Infrastructure Lending Program (MILP): Under Canada's Economic Action Plan, CMHC is administering the MILP which can provide up to $2 billion in direct low-cost loans to municipalities over a two-year period to fund housing-related municipal infrastructure. Eligible projects must directly relate to housing, contributing to the efficient functioning of new and existing residential areas. Municipalities can fund their contribution to cost-shared federal infrastructure programming through funds borrowed under this program.

***National Housing Act* Mortgage Backed Securities (NHA MBS):** A security which represents an undivided interest in a pool of residential mortgages insured under the NHA or by a licensed private sector insurer and which has the full timely-payment guarantee of the Government of Canada through CMHC. The principal and a portion of the interest paid by borrowers on the mortgages in an NHA MBS pool are paid to investors monthly. These payments can vary from month to month if, for example, borrowers make unscheduled payments such as advance payments of principal on a mortgage.

Securities under the NHA MBS program are issued by Approved Issuers (primarily lending institutions).

Proposal Development Funding (PDF): An interest-free loan of up $100,000 to support activities carried out during the early stages of developing an affordable housing project. PDF is available for projects that are developed without long term federal government subsidies. Eligible costs include soil load-bearing tests, environmental site assessments, project drawings and specifications, development permits and certain professional and consulting fees. The loan is repayable upon the first advance of mortgage funding and a portion of the loan may be forgiven if it meets certain criteria for affordable housing as defined by CMHC.

Renovation Programs: Programs that help low-income households, landlords, persons with disabilities and Aboriginal people undertake renovations, repairs or rehabilitation of their housing units. Some provinces and territories participate with CMHC in these programs. CMHC's suite of renovation programs include:

Residential Rehabilitation and Assistance Program (RRAP): A program which provides financial assistance to low-income households who live on and off reserve to enable them to repair their homes, as well as to assist landlords to repair rental dwellings or to convert non-residential properties into residential units.

Shelter Enhancement Program (SEP): A program which provides financial assistance to repair, rehabilitate and improve existing shelters, both on and off reserve, for victims of family violence. The program also assists in the acquisition or construction of new shelters and second stage housing.

Emergency Repair Program (ERP): A program which provides financial assistance to low-income homeowners or occupants in rural areas to undertake emergency repairs required for the continued safe occupancy of their house.

Home Adaptations for Seniors' Independence (HASI): A program which provides financial assistance to low-income seniors to carry out minor adaptations to assist them to live independently in their own homes.

Seed Funding: Consists of a grant and a loan up to a maximum of $20,000 when combined, to support activities carried out in the early stages of developing affordable housing project proposals. Eligible expenses include costs for housing market studies, need and demand analyses, the preparation of business plans, preliminary financial viability analyses, preliminary project designs, as well as the costs to incorporate an entity. The loan portion of Seed Funding is repayable upon the first advance of mortgage funding.

Definitions of select CMHC performance measures

OBJECTIVE 1: HELP CANADIANS IN NEED	
Measure	**Definition**
Strategic Priority 1.1	
Housing program expenses	Expenses primarily related to social housing [illegible] housing programs, non-profit housing programs, rent [illegible] and native housing programs, urban native housing pro[illegible] programs. New commitments under these prog[illegible] non-profit housing program on-reserve. Also includes [illegible] Housing Initiative, CMHC's renovation programs, CMHC' [illegible] and export promotion activities, as well as comm[illegible] Action Plan.
Estimated number of households assisted through long-term social housing agreements	Households who live in social housing developed [illegible] social housing on reserve developed under the On-Res[illegible] Program under which new units continue to be developec
Renovation program expenditures (value of loans forgiven over time)	Federal expenditures disbursed under CMHC's renovatio[illegible] These programs were extended for two years to March 3[illegible]
Affordable Housing Initiative expenditures	Federal expenditures under the AHI. This initiative was extended fo[illegible] (March 2009 to March 2011). Does not include CEAP funding [illegible] renovation and retrofit and for new social housing for seniors, p[illegible] First Nations and the North.
Affordable housing units facilitated by CMHC's Affordable Housing Centre	Affordable housing units for which project sponsors have [illegible] Funding or Proposal Development Funding, and [illegible] staff have provided advice in the development of these unit[illegible] qualified for CMHC mortgage loan insurance underwriting flexi[illegible] affordable housing.
Direct Lending	CMHC provides low-cost loans directly to federally-supported [illegible] seeking to finance their housing projects upon mortgage [illegible] finance new housing production.
Strategic Priority 1.2	
Per cent of housing programs and services delivered through First Nations or Aboriginal organizations	The average of the following: 1. Per cent of RRAP accounts on reserve delivered by Aborigina[illegible] 2. Per cent of commitments under the On-Reserve [illegible] Program for which inspections and physical cond[illegible] under the Native Inspection Services Initiative based on [illegible] 3. Per cent of Aboriginal Capacity Development service contract dollars paid t[illegible] Aboriginal service providers.
Homeowner units facilitated through insured financing or other market-based housing tools	Homeownership units on reserve that CMHC was instrumenta[illegible] Where financing is required, homeownership [illegible]oans may be [illegible]

OBJECTIVE 2: FACILITATE ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING FOR ALL CANADIANS	
Measure	**Definition**
Strategic Priority 2.1	
Total mortgage loan insurance approved in units	Includes loans for both homeownership and rental units as well as portfolio insurance.
Operating expense ratio (per cent)	The ratio of operating expenses to total premiums and fees revenue earned. ((Operating expenses) / (earned premiums + fees)) *100
Strategic Priority 2.2	
Annual securities guaranteed	NHA Mortgage-Backed Securities (NHA MBS) for which CMHC issued guarantees during the year. Once guaranteed, NHA MBS may be issued directly into capital market, issued to the Canada Housing Trust for conversion to Canada Mortgage Bonds, or purchased under the Insured Mortgage Purchase Program.
Operating expense ratio (per cent)	The ratio of operating expenses to revenue earned. (Operating expenses + Canada Mortgage Bonds related expenses)/ (guarantee fees earned + application and compensatory fees earned + Financial Services Advisors fees earned from Canada Housing Trust) *100
Strategic Priority 2.3	
Forecast accuracy of housing starts	The difference expressed as percentage between CMHC's initial starts forecast for Canada and the actual annual starts for the same year.
Ranking of housing starts forecast accuracy among forecasters	Ranking of the accuracy of CMHC's annual housing starts forecast amongst other industry forecasters where the most accurate forecaster ranks first.

OBJECTIVE 3: ENSURE THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD	
Measure	**Definition**
Strategic Priority 3.2	
Consulting revenues achieved ($M)	CMHC offers a range of consulting services including providing technical expertise in housing finance, housing policy, housing market analysis and mortgage loan insurance. These consulting services earn revenues from both public and private international clients.

ENSURING A STRONG ORGANIZATION – INTERNAL SERVICES	
Measure	**Definition**
Human Resources	
Level of employee engagement	The overall level of engagement is based on the results of a survey of CMHC employees conducted by Towers Watson (formerly Towers Perrin ISR) in comparison to industry benchmarks. To be fully engaged, employees must have: – rational understanding of the organization's strategic goals, values, and how they fit; – emotional attachment to their organization; – the motivation and willingness to invest discretionary effort to go above and beyond to help the organization succeed
Information Technology	
Overall systems reliability index (per cent)	Weighted average of monthly availability of key corporate systems.

CMHC Board of Directors – Biographies

Dino Chiesa, BA
Principal, Chiesa Group, Toronto, ON
Mr. Chiesa was appointed Chairperson of the Board of Directors in March 2005. He is Principal, Chiesa Group Commercial Property Investors and Vice-Chair of the Board of Trustees of the Canadian Apartment Properties Real Estate Investment Trust (CAPREIT). Prior to this, he was the Assistant Deputy Minister of Ontario's Ministry of Municipal Affairs and Housing and CEO of the Ontario Housing Corporation and Ontario Mortgage Corporation. He was an employee of CMHC from 1975 to 1987. Mr. Chiesa has been a member of the Board since June 2001.

Karen Kinsley, FCA
President and Chief Executive Officer, CMHC, Ottawa, ON
Ms. Kinsley is a Fellow of the Institute of Chartered Accountants of Ontario (FCA) and joined CMHC in 1987. She has held a variety of positions in management, including Chief Financial Officer, Vice-President, Corporate Services and Vice-President, Insurance and Securitization. She was appointed President and Chief Executive Officer in June 2003 and re-appointed for three more years in April 2008.

Harold Calla, CGA, CAFM
Chairperson, First Nations Financial Management Board, Vancouver, BC
Mr. Calla serves as Chairperson of the First Nations Financial Management Board, one of four institutions created under the *First Nation Fiscal and Statistical Management Act* to support Aboriginal economic development. Mr. Calla is a member of the Board of Directors of Terasen Inc., an energy company based in British Columbia. He was appointed to CMHC's Board of Directors in June 2005.

Brian Johnston, CA
President, Monarch Corporation, Toronto, ON
Mr. Johnston is a chartered accountant and the President of Monarch Corporation, one of Canada's oldest and largest real estate companies. He is also an active member within the home building industry and a past president of the Ontario Home Builders' Association. He currently sits on the Board of Directors of the C.D. Howe Institute and Enerquality Corporation. Mr. Johnston was appointed to the Board in January 2008.

Sophie Joncas, CA
Ms. Joncas is a chartered accountant in private practice She is a member of the continuing [illegible] of the Ordre des comptables ag[illegible]. She has also developed and taught courses o[illegible] and on the role of the audit committee fo[illegible] She was appointed to the Board in August [illegible].

E. Anne MacDonald, BA, LLB
Lawyer, Pictou, [illegible]
Ms. MacDonald has operated a general law practice in the Town of Pictou since 1979. She was the solicitor for the Town of Pictou for 25 years [illegible] in acquiring and managing it [illegible] actively participates in and supports numerous con[illegible] organizations and charities. She was appointed to the Board in September 2007

James A. Millar, BA, MA
Mr. Millar, a career public servant, worked in sever[illegible] government department [illegible] Manpower and Immigration, the Put[illegible] and Transport Canada. He [illegible] from CMHC in 20[illegible] and Communications [illegible] April 2007.

Gary P. Mooney, BA, LLB, PhD
Mississauga, [illegible]
[illegible]

André G. Plourde, B. Admin.
[illegible] Montreal, Qc [illegible] commercial real estate industry as a member of the Urb[illegible] Development Institute of Québec and the A[illegible] [illegible]tiers et agents immobiliers du Québec. He was appo[illegible] to the Board in April 2008

CMHC Management

(as at December 31, 2009)

Karen Kinsley
President and Chief Executive Officer

NATIONAL OFFICE

P. Marc Joyal
Vice-President, Corporate Services and Chief Financial Officer

Sharon Matthews
Vice-President, Assisted Housing

Mark McInnis
Vice-President, Insurance Underwriting, Servicing and Policy

Pierre Serré
Vice-President, Insurance Product and Business Development

Douglas Stewart
Vice-President, Policy and Planning

Gail Tolley
Vice-President, Human Resources

André Asselin
Executive Director, CMHC International

Charles Chenard
Executive Director, Corporate Marketing

Anne Dawson
Executive Director, Communications

Wojo Zielonka
Chief Risk Officer

Serge Gaudet
Director, Audit and Evaluation Services

Douglas Tyler
General Counsel

Tranquillo Marrocco
Corporate Secretary

REGIONAL BUSINESS CENTRES

Sylvie Crispo
General Manager, Québec Business Centre

Peter Friedmann
General Manager, Ontario Business Centre, and Managing Director, Securitization

Trevor Gloyn
General Manager, Prairie and Territories Business Centre

Carolyn Kavanagh
General Manager, Atlantic Business Centre

Charles B. MacArthur
General Manager, British Columbia Business Centre

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Prairie and Territories

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Calgary, Alberta, T2P 5L5
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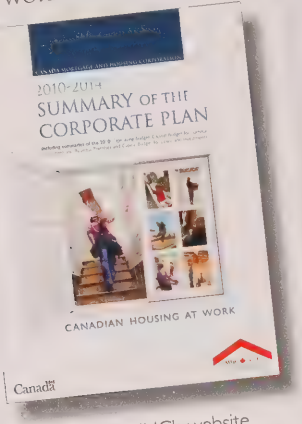
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ENSURING CANADIAN HOUSING AT WORK FOR THE FUTURE



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